



**TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA
DECEMBER 11, 2023
110 EAST MAIN STREET
LOS GATOS, CA
5:00 PM**

*Rick Tinsley, Chair
Phil Koen, Vice Chair
Stacey Dell, Commissioner
Andrew Howard, Commissioner
Linda Reiners, Commissioner
Maria Ristow, Mayor
Rob Rennie, Council Member*

IMPORTANT NOTICE

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

PARTICIPATION

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

- **Zoom webinar:** Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join: <https://losgatosca.gov.zoom.us/j/84071761435?pwd=dVlsVS8vRzRTYWp3T2ZKQnYrWWxkQT09>
Passcode: 214575. You can also type in 840 7176 1435 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join> and use passcode: 214575.
 - 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.
- **Join by telephone:** Join by Telephone: Dial: USA 877 336 1839 US Toll-free or 636 651 0008 US Toll. Conference code: 1052180.
 - If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- **In-Person:** If you wish to speak during the meeting, please complete a “speaker’s card” located on the back of the chamber benches and return it to the Town Clerk. If you wish to speak to an item on the agenda, please list the item number. If you wish to speak on an item NOT on the agenda, please list the subject and you may speak during the “Verbal Communications” period. The time allocated to speakers may change to better facilitate the Finance Commission meeting.

When called to speak, you may be asked to provide your full name and your town/city of residence. This identifying information is optional and not a requirement for participation. Please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Commission meeting. If you wish to speak to an item or items on the Consent Calendar, please state which item number(s) you are commenting on at the beginning of your time.

**TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA
DECEMBER 11, 2023
110 EAST MAIN STREET
LOS GATOS, CA
5:00 PM**

MEETING CALLED TO ORDER

ROLL CALL

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

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

1. Approve Draft Minutes of the October 9, 2023, Finance Commission Regular Meeting
2. Approve Draft Minutes of the December 4, 2023, Finance Commission Special Meeting
3. Receive the Monthly Financial and Investment Report for September 2023 and October 2023
4. Receive the CalPERS Public Employees' Retirement Fund (PERF) Performance Report as of September 30, 2023
5. Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the Period Ending September 30, 2023 and Performance as of October 31, 2023
6. Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending September 30, 2023 and the Performance Report as of October 31, 2023.
7. Receive a Report of the CalPERS 2023 Annual Review of Funding Levels and Risks

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

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

8. Receive the First Quarter Key Performance Indicators (KPIs of FY 2023/24)

- [9.](#) Conclude Recommendation to the Town Council Regarding the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year

ADJOURNMENT

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
FINANCE COMMISSION
AGENDA REPORT**

MEETING DATE: 12/11/2023

ITEM NO: 1

Item 1.

**DRAFT
Minutes of the Finance Commission Regular Meeting
October 9, 2023**

The Finance Commission of the Town of Los Gatos conducted a regular meeting in person and utilizing teleconferencing means on Monday October 9, 2023, at 5:00 p.m.

THE MEETING WAS CALLED TO ORDER AT 5:00 P.M.

ROLL CALL

Present: Chair Rick Tinsley, Vice Chair Phil Koen, Commissioner Linda Reiners, Commissioner Andrew Howard, Mayor Maria Ristow, and Council Member Rob Rennie.

Absent: Commissioner Stacey Dell.

Town Staff Present: Town Manager Laurel Prevetti, Finance Director Gitta Ungvari, and Town Clerk Wendy Wood.

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

1. Approve Draft Minutes of the May 8, 2023, Finance Commission Regular Meeting
2. Receive the Monthly Financial and Investment Reports (April through August 2023).
3. Receive the CalPERS Public Employees' Retirement Fund (PERF) Performance Report as of December 31, 2022
4. Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Reports for the Period Ending March 31, 2023 and June 30, 2023; and Performance as of April 30, 2023 and July 31, 2023
5. Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Reports for the Period Ending March 31 and June 30, 2023; and Performance Reports as of April 30, 2023 and July 31, 2023.
6. Receive the CalPERS Actuarial Valuation Reports as of June 30, 2022
7. Receive Report on Town Council's Fiscal Year (FY) 2023/24 Budget Actions
8. Receive the Fourth Quarter Key Performance Indicators (KPIs)

Vice Chair Koen asked to pull items 2, 6, 7, and 8 from Consent.

MOTION: Motion by Vice Chair Koen to approve the consent items 1, 3, 4 and 5. **Seconded** by Commissioner Reiners.

VOTE: Motion passed 4-0 (Commissioner Dell was absent).

PAGE 2 OF 4

SUBJECT: Draft Minutes of the Finance Commission Regular Meeting of October 9, 2023

DATE: December 6, 2023

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

9. Discuss the Finance Commission Meeting Dates and Times for the Remainder of 2023 and Start the Preliminary Discussion for 2024

Finance Director Ungvari presented the staff report.

The Commission discussed the item.

Opened Public Comment.

No one spoke.

Closed Public Comment.

No action was taken.

10. Discuss Municipal Investment and Banking Best Practices

Finance Director Ungvari introduced the item and the investment consultant.

Consultant David Witthohn, provided information on municipal investments.

Finance Director Ungvari provided information on banking best practices.

The Commission asked questions and discussed the item.

Opened Public Comment.

No one spoke.

Closed Public Comment.

No action was taken.

11. Discuss Upcoming Audit and Provide Input on June 30, 2023 Annual Comprehensive Financial Report with the Town's Independent Auditor

Consultant, Sheldon Chavan, presented the audit summary plan.

PAGE 3 OF 4

SUBJECT: Draft Minutes of the Finance Commission Regular Meeting of October 9, 2023

DATE: December 6, 2023

Commissioners discussed the item and asked questions.

Staff and the consultant addressed the Commissioners' questions.

Opened Public Comment.

No one spoke.

Closed Public Comment.

2. Receive the Monthly Financial and Investment Reports (April through August 2023).

Vice Chair Koen asked questions about the item.

Staff addressed the questions.

There was no public comment.

The Commission received the report.

6. Receive the CalPERS Actuarial Valuation Reports as of June 30, 2022

Vice Chair Koen asked questions about the item.

Staff addressed the questions.

There was no public comment.

The Commission discussed the item and received the report.

7. Receive Report on Town Council's Fiscal Year (FY) 2023/24 Budget Actions

There was no discussion and no public comment on this item.

The Commission received the report.

8. Receive the Fourth Quarter Key Performance Indicators (KPIs)

Vice Chair Koen made comments on the item.

There was no public comment.

PAGE 4 OF 4

SUBJECT: Draft Minutes of the Finance Commission Regular Meeting of October 9, 2023

DATE: December 6, 2023

The Commission received the report.

ADJOURNMENT:

The meeting adjourned at 7:22 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the October 9, 2023, meeting as approved by the Finance Commission.

Wendy Wood, Town Clerk



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

MEETING DATE: 12/11/2023

ITEM NO: 2

Item 2.

**DRAFT
Minutes of the Finance Commission Special Meeting
December 4, 2023**

The Finance Commission of the Town of Los Gatos conducted a Special meeting in person and utilizing teleconferencing means on Monday, December 4, 2023, at 5:00 p.m.

THE MEETING WAS CALLED TO ORDER AT 5:00 P.M.

ROLL CALL

Present: Vice Chair Phil Koen, Commissioner Linda Reiners, Commissioner Andrew Howard, Mayor Maria Ristow, and Council Member Rob Rennie.

Absent: Chair Rick Tinsley.

Town Staff Present: Town Manager Laurel Prevetti, Finance Director Gitta Ungvari, and Town Clerk Wendy Wood.

VERBAL COMMUNICATIONS

No one spoke.

OTHER BUSINESS

1. Review the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year and Provide Written Comments and Recommendations Prior to Presenting to the Town Council

Finance Director Ungvari introduced the item.

Consultant, Sheldon Chavan, presented the Draft Annual Comprehensive Financial Report (ACFR).

Commissioners asked questions, discussed the item, and provided feedback related to the Management's Discussion and Analysis.

Staff and the consultant addressed the Commissioners' questions.

Opened Public Comment.

No one spoke.

SUBJECT: Draft Minutes of the Finance Commission Special Meeting of December 4, 2023

DATE: December 6, 2023

Closed Public Comment.

No action was taken.

ADJOURNMENT:

The meeting adjourned at 6:39 p.m.

This is to certify that the foregoing is a true
and correct copy of the minutes of the
December 4, 2023, meeting as approved by the
Finance Commission.

Wendy Wood, Town Clerk



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/11/2023

ITEM NO: 3

Item 3.

DATE: December 5, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Monthly Financial and Investment Report for September 2023 and October 2023

RECOMMENDATION:

Receive the Monthly Financial and Investment Report for September 2023 and October 2023

BACKGROUND:

California Government Code Section 41004 requires that the Town Treasurer submit to the Town Clerk and the legislative body a written report and accounting of all receipts, disbursement, and fund balances. The Finance Director assumes the Town Treasurer role.

Attachment 1 contains the September 2023 Monthly Financial and Investment Report, which has already been received by the Town Council at its regularly scheduled meeting. Attachment 2 contains the October 2023 Monthly Financial and Investment Report which fulfills this requirement. The October 2023 Monthly Financial and Investment Report will be presented to Town Council on December 19, 2023.

DISCUSSION:

The September and October 2023 Monthly Financial and Investment Reports include a Fund Balance Schedule, representing estimated funding available for all funds at the end of the respective month. The fund balances are estimated at a point in time and will be finalized at the final close of the fiscal year.

PREPARED BY: Gitta Ungvari
Finance Director

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

SUBJECT: Monthly Financial and Investment Report for October 2023

DATE: December 5, 2023

DISCUSSION (continued):

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

This discussion focuses on the results of the October Report because it is more current than the September Report. As illustrated in the summary below, Total Cash is adjusted by the addition of Total Assets less the amount of Total Liabilities to arrive at the Ending Fund Balance – which represents the actual amount of funds available.

Reconciling Cash to Fund Balance - October 31, 2023

Total Cash	\$	64,959,590
Plus: Assets	\$	15,819,862
Less: Liabilities	\$	(28,995,195)
Estimated Fund Balance	\$	51,784,257

Reconciling Cash to Fund Balance - September 30, 2023

Total Cash	\$	66,196,260
Plus: Assets	\$	15,479,675
Less: Liabilities	\$	(29,335,967)
Estimated Fund Balance	\$	52,339,969

As of October 31, 2023, the Town's financial position (Assets \$80.78M, Liabilities \$28.96M, and Fund Equity \$51.8M) remains strong and there are no issues meeting financial obligations in the near future.

As of October 31, 2023, the Town's weighted portfolio yield for investments under management was 4.12% which was 45 basis points above the Local Agency Investment Fund (LAIF) yield of 3.67% for the same reporting period. Currently, the LAIF portfolio's weighted average maturity (WAM) is 250 days versus the Town's longer WAM of 579 days. The longer maturity (WAM) for Town assets under management reflects the Town's strategy to take advantage of higher yields associated with longer maturities balanced with shorter term yields available on investments held with the State's LAIF. The Town's weighted average rate of return on investments under management of 4.12% at the close of October was 35 basis points higher when compared to the prior month's return of 3.77 % reported as of September 30, 2023.

Since October 31, 2022, LAIF yields had climbed from 177 basis points (1.77%) to 367 basis points (3.67%) through the end of October 2023.

PAGE 3 OF 3

SUBJECT: Monthly Financial and Investment Report for October 2023

DATE: December 5, 2023

DISCUSSION (continued):

Staff, in coordination with the Town's investment advisor, continued primarily replacing maturing investments with medium term maturities in the three- to four-year maturity range. These investments capture current yields that exceed the rates expected to be earned in the LAIF pool during that same time period. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

On March 22, 2023, the Federal Reserve voted to approve a $\frac{1}{4}$ percentage basis point increase from 4.75% to 5.00%. This action was followed with additional hikes in May 2023 from 5.00% to 5.25% and July from 5.25 % to 5.5 %. Through these actions over time, the Federal Open Market Committee's (FOMC) goal is to bring year to year inflation to its targeted level of 2%. The labor market remained tight overall. The US economy added 336,000 new jobs in September, above consensus for 170,000. Hiring was strong across government and private sectors. The unemployment rate was unexpectedly unchanged at 3.8% as was the participation rate at 62.8%. Wage growth continued to cool at just 0.2% month-on-month and 4.2% year-on-year.

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

CONCLUSION:

Receive Monthly Financial and Investment Report for October 2023.

Attachments:

1. Financial and Investment Report (September 2023)
2. Financial and Investment Report (October 2023)

Town of Los Gatos
Summary Investment Information
September 30, 2023

Weighted Average YTM Portfolio Yield on Investments under Management

3.77%

Weighted Average Maturity (days)

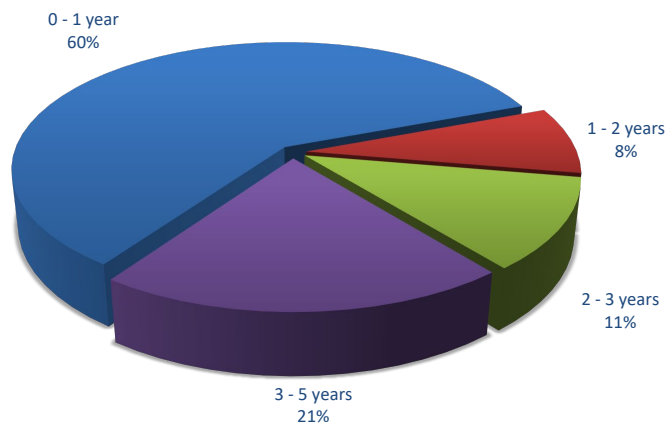
495

	This Month	Last Month	One year ago
Portfolio Allocation & Treasurer's Cash Balances	\$66,196,260	\$69,093,001	\$62,736,952
Cert. of Participation 2002 Lease Payment Fund			
Managed Investments	\$49,276,078		
Local Agency Investment Fund	\$11,138,242		
Reconciled Demand Deposit Balances	\$5,781,940		
Portfolio Allocation & Treasurer's Cash Balances	\$66,196,260		

Benchmarks/ References:

Town's Average Yield	3.77%	3.71%	1.80%
LAIF Yield for month	3.53%	3.43%	1.51%
3 mo. Treasury	5.46%	5.47%	3.29%
6 mo. Treasury	5.55%	5.51%	3.97%
2 yr. Treasury	5.05%	4.87%	4.28%
5 yr. Treasury (most recent)	4.61%	4.26%	4.09%
10 Yr. Treasury	4.57%	4.11%	3.84%

Portfolio Maturity Profile



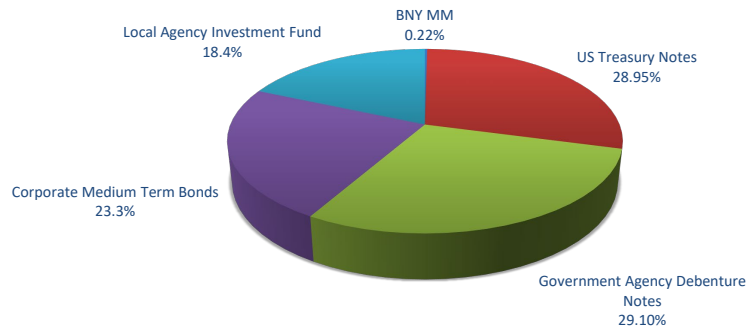
Compliance: The Town's investments are in compliance with the Town's investment policy dated February 21, 2023 and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands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

Town of Los Gatos
Portfolio Allocation & Treasurer's Cash Balances
September 30, 2023

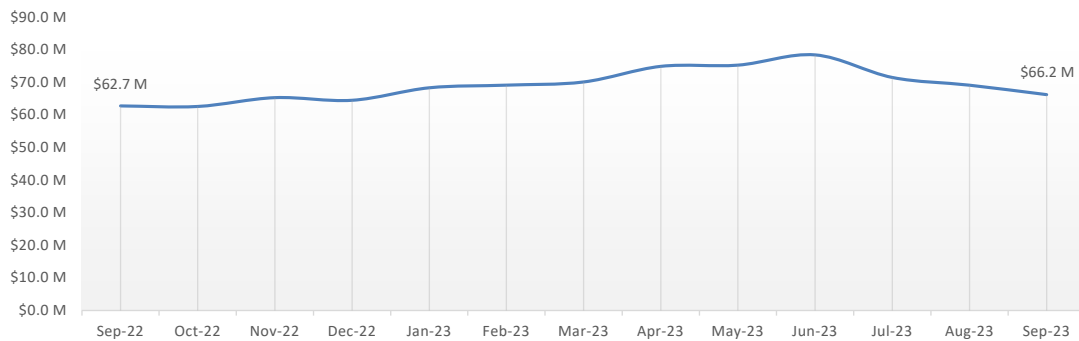
	Month	YTD
Cash & Investment Balances - Beginning of Month/Period	\$ 69,093,000.93	\$ 78,384,947.79
Receipts	6,049,493.39	17,050,953.33
Disbursements	(8,946,234.68)	(29,239,641.48)
Cash & Investment Balances - End of Month/Period	<u>\$66,196,259.64</u>	<u>\$66,196,259.64</u>

Portfolio Allocation	Amount	% of Portfolio	Max. % or \$ Allowed per State Law or Policy
BNY MM	\$134,420.97	0.22%	20% of Town Portfolio
US Treasury Notes	\$17,490,610.47	28.95%	No Max. on US Treasuries
Government Agency Debenture Notes	\$17,580,861.65	29.10%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,070,185.01	23.29%	30% of Town Portfolio
Local Agency Investment Fund	\$11,138,241.57	18.44%	\$75 M per State Law
Subtotal - Investments	<u>60,414,319.67</u>	<u>100.00%</u>	
Reconciled Demand Deposit Balances	<u>5,781,939.97</u>		
Total Portfolio Allocation & Treasurer's Cash Balances	<u>\$66,196,259.64</u>		

Portfolio Investment Allocation



Treasurer's Fund Balances



Town of Los Gatos
Non-Treasury Restricted Fund Balances
September 30, 2023

	Beginning Balance	August 2023 Deposits Realized Gain/Adj.	August 2023 Interest/ Earnings	August 2023 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 701,134.51		\$ 2,871.01		\$ 704,005.52	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	780.70		3.19		783.89	Note 1
Cert. of Participation 2002 Lease Payment Fund	431.44		1.74		433.18	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,329,825.63		5,860.55		1,335,686.18	Note 2
Total Restricted Funds:	<u>\$ 2,032,172.28</u>	<u>\$ -</u>	<u>\$ 8,736.49</u>	<u>\$ -</u>	<u>\$ 2,040,908.77</u>	
CEPPT IRS Section 115 Trust	1,396,058.25		(44,155.59)		\$ 1,351,902.66	
Grand Total COP's and CEPPT Trust	<u>\$ 3,428,230.53</u>	<u>\$ -</u>	<u>\$ (35,419.10)</u>	<u>\$ -</u>	<u>\$ 3,392,811.43</u>	

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

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

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

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

Town of Los Gatos
Statement of Interest Earned
September 30, 2023

Interest by Month

July 2023	\$	133,845.42
August 2023		129,679.93
September 2023		158,361.71
October 2023		-
November 2023		-
December 2023		-
January 2024		-
February 2024		-
March 2024		-
April 2024		-
May 2024		-
June 2024		-
	\$	<u>421,887.06</u>

**Town of Los Gatos Investment Schedule
September 30, 2023**

Item 3.

Institution	CUSIP #	Security	Coupon	Deposit Date	Par Value	Original Cost	Market Value	Market Value Above (Under) Cost	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
US Treasury	91282CAP6	US Treasury Note	0.13%	6/30/2021	1,000,000.00	995,390.63	998,130.00	2,739.37		10/15/2023	0.33%	\$ 2,240.44	\$ 6,520.12	\$ 821.71	15
US Treasury	91282CDD0	US Treasury Note	0.38%	1/13/2022	1,100,000.00	1,090,675.78	1,095,688.00	5,012.22		10/31/2023	0.85%	\$ 5,344.27	\$ 13,599.56	\$ 2,347.39	31
FFCB	3133EKM1	Gov. Agency Debenture	2.23%	8/2/2019	1,000,000.00	1,014,400.00	986,790.00	(27,610.00)		2/23/2024	1.90%	\$ 96,075.83	\$ 74,902.07	\$ 4,825.62	146
FFCB	3133EMBE1	Gov. Agency Debenture	0.30%	10/8/2020	1,600,000.00	1,598,000.00	1,559,744.00	(38,256.00)		3/28/2024	0.34%	\$ 14,253.34	\$ 14,655.57	\$ 1,355.09	180
FFCB	3133EMCQ3	Gov. Agency Debenture	0.28%	10/16/2020	2,000,000.00	1,998,000.00	1,995,880.00	(2,120.00)		10/13/2024	0.31%	\$ 13,953.33	\$ 16,496.92	\$ 1,537.71	379
Apple	037833DB3	Corporate Bond	2.90%	12/20/2022	1,300,000.00	1,228,591.00	1,200,576.00	(28,015.00)		6/21/2027	4.19%	\$ 27,437.22	\$ 28,170.97	\$ 13,498.59	1360
Cert. of Participation 2002 Le	437076BM3	Corporate Bond	3.00%	8/4/2022	1,000,000.00	991,960.00	948,250.00	(43,710.00)		1/1/2026	3.04%	\$ 19,750.00	\$ 29,252.66	\$ 8,155.29	824
US Treasury	912828ZW3	US Treasury Note	0.25%	8/9/2022	350,000.00	322,096.88	321,671.00	(425.88)		6/30/2025	3.16%	\$ 779.89	\$ 9,366.72	\$ 2,651.50	639
IBM	459200JY8	Corporate Bond	3.00%	3/25/2021	1,000,000.00	1,071,040.00	983,010.00	(88,030.00)		5/15/2024	0.71%	\$ 64,166.67	\$ 16,751.96	\$ 1,863.58	228
FFCB	3133ENS58	Gov. Agency Debenture	4.13%	1/17/2023	236,000.00	239,174.20	230,697.08	(8,477.12)		1/11/2027	3.76%	\$ 4,705.25	\$ 4,016.30	\$ 2,253.05	1199
US Treasury	91282CBT7	US Treasury Note	0.75%	9/30/2022	800,000.00	712,565.18	723,440.00	10,874.82		3/31/2026	4.14%	\$ 6,000.00	\$ 23,165.06	\$ 7,806.54	913
FFCB	3133ENP95	Gov. Agency Debenture	4.25%	9/30/2022	900,000.00	900,939.60	884,862.00	(16,077.60)		9/30/2025	4.14%	\$ 38,250.00	\$ 28,374.86	\$ 9,562.22	731
US Treasury	91282CDA6	US Treasury Note	0.25%	1/31/2022	1,100,000.00	1,085,222.44	1,100,000.00	14,777.56		9/30/2023	1.07%	\$ 4,570.74	\$ 16,417.94	\$ 2,932.91	0
US Treasury	91282CAW1	US Treasury Note	0.25%	7/15/2021	1,200,000.00	1,199,437.50	1,192,572.00	(6,865.50)		11/15/2023	0.27%	\$ 5,502.72	\$ 6,348.21	\$ 816.83	46
American Honda	02665WC22	Corporate Bond	2.40%	11/27/2019	1,000,000.00	1,012,410.01	975,410.00	(37,000.00)		6/27/2024	2.12%	\$ 96,733.34	\$ 76,483.79	\$ 5,367.28	271
JP Morgan Chase	46625HRS1	Corporate Bond	3.20%	9/23/2022	500,000.00	474,660.00	470,195.00	(4,465.00)		3/15/2026	4.70%	\$ 11,644.44	\$ 17,865.15	\$ 5,869.98	897
Honeywell Int'l.	438516BW5	Corporate Bond	2.30%	11/20/2019	1,000,000.00	1,014,660.00	972,140.00	(42,520.00)		7/15/2024	1.64%	\$ 85,483.33	\$ 71,679.55	\$ 5,003.43	289
Caterpillar Financial Serv	14913Q2V0	Corporate Bond	2.85%	2/23/2021	1,000,000.00	1,077,370.00	982,340.00	(95,030.00)		5/17/2024	0.44%	\$ 63,650.00	\$ 10,677.18	\$ 1,146.21	230
FNMA	3135G0V75	Gov. Agency Debenture	1.75%	10/17/2019	1,100,000.00	1,105,833.30	1,069,640.00	(36,193.30)		7/2/2024	1.63%	\$ 71,706.25	\$ 66,718.86	\$ 4,540.04	276
US Bancorp	91159HHV5	Corporate Bond	3.38%	12/24/2019	1,000,000.00	1,049,040.00	990,450.00	(58,590.00)		1/5/2024	2.12%	\$ 121,968.75	\$ 75,978.33	\$ 5,443.93	97
FFCB	3133EKQA7	Gov. Agency Debenture	2.08%	10/21/2019	1,000,000.00	1,019,780.00	966,710.00	(53,070.00)		9/10/2024	1.66%	\$ 80,831.11	\$ 61,888.40	\$ 4,223.84	346
FHLB	3135G05X7	Gov. Agency Debenture	0.38%	6/10/2022	1,200,000.00	1,102,952.40	1,097,712.00	(5,240.40)		8/25/2025	3.04%	\$ 5,437.50	\$ 36,626.55	\$ 8,752.32	695
US Treasury	912828ZL7	US Treasury Note	0.38%	4/12/2022	1,700,000.00	1,583,927.57	1,576,019.00	(7,908.57)		4/30/2025	2.72%	\$ 6,691.99	\$ 54,017.06	\$ 11,192.72	578
JP Morgan Chase	46625HJT8	Corporate Bond	3.88%	9/23/2019	1,400,000.00	1,485,414.00	1,390,060.00	(95,354.00)		2/1/2024	2.39%	\$ 209,163.89	\$ 130,689.90	\$ 8,737.99	124
US Treasury	912828V23	US Treasury Note	2.25%	11/29/2021	1,000,000.00	1,032,933.04	992,030.00	(40,903.04)		12/31/2023	0.66%	\$ 35,706.52	\$ 10,649.43	\$ 1,695.07	92
US Treasury	91282CBE0_2	US Treasury Note	0.13%	10/7/2021	1,000,000.00	994,768.98	985,000.00	(9,768.98)		1/15/2024	0.36%	\$ 2,214.67	\$ 6,137.79	\$ 894.89	107
FHLB	3130ALH98	Gov. Agency Debenture	0.25%	2/26/2021	1,000,000.00	997,610.00	978,880.00	(18,730.00)		2/26/2024	0.33%	\$ 6,250.00	\$ 7,713.30	\$ 830.94	149
FHLB	3130AQF65	Gov. Agency Debenture	1.25%	11/30/2022	1,300,000.00	1,160,559.40	1,161,030.00	470.60		12/21/2026	4.15%	\$ 9,072.92	\$ 29,385.32	\$ 12,752.12	1178
US Treasury	912828U57	US Treasury Note	2.13%	7/31/2019	1,000,000.00	1,011,875.00	994,550.00	(17,325.00)		11/30/2023	1.84%	\$ 81,458.33	\$ 72,526.17	\$ 4,666.02	61
US Treasury	912828X70	US Treasury Note	2.20%	12/30/2019	1,000,000.00	1,010,589.29	980,390.00	(30,199.29)		4/30/2024	1.75%	\$ 73,703.30	\$ 68,481.11	\$ 4,929.78	213
US Treasury	912828X72	US Treasury Note	2.00%	10/31/2019	1,000,000.00	1,015,667.41	977,230.00	(38,437.41)		5/31/2024	1.64%	\$ 71,639.34	\$ 60,792.37	\$ 4,180.04	244
American Honda	02665WCQ2	Corporate Bond	3.63%	9/14/2021	950,000.00	1,012,871.00	949,601.00	(63,270.00)		10/10/2023	0.41%	\$ 54,143.40	\$ 7,316.05	\$ 1,029.17	10
FFCB	3133EJ3Q0	Gov. Agency Debenture	2.88%	8/28/2019	1,500,000.00	1,587,503.75	1,491,465.00	(96,038.75)		12/21/2023	2.12%	\$ 164,473.96	\$ 87,804.46	\$ 5,761.78	82
US Treasury	91282CBE0	US Treasury Note	0.13%	9/15/2021	650,000.00	647,615.46	640,250.00	(7,365.46)		1/15/2024	0.28%	\$ 1,488.12	\$ 3,281.18	\$ 462.28	107
FHLB	3130APJH9	Gov. Agency Debenture	0.75%	1/17/2023	1,000,000.00	907,010.00	901,670.00	(5,340.00)		10/28/2026	4.17%	\$ 2,104.17	\$ 14,420.85	\$ 8,089.74	1124
FFCB	3133ENS56	Gov. Agency Debenture	4.00%	2/8/2023	1,700,000.00	1,706,732.00	1,648,677.00	(58,055.00)		1/6/2028	3.91%	\$ 27,955.56	\$ 25,921.64	\$ 16,794.30	1559
Freddie Mac	3137EAXE3	Gov. Agency Debenture	0.04%	5/1/2023	750,000.00	689,032.50	683,850.00	(5,182.50)	156.26	9/23/2025	3.97%	\$ (156.26)	\$ 4,222.09	\$ 6,473.87	724
American Honda	02665WED9	Corporate Bond	4.70%	5/11/2023	600,000.00	608,856.00	583,122.00	(25,734.00)		1/12/2028	4.34%	\$ 4,778.33	\$ 3,603.61	\$ 6,630.64	1565
US Treasury	91282CEF4	US Treasury Note	2.50%	6/9/2023	1,500,000.00	1,416,626.12	1,393,470.00	(23,156.12)		3/31/2027	4.09%	\$ 11,577.87	\$ 3,416.23	\$ 14,966.36	1278
US Treasury	91282CGA3	US Treasury Note	4.00%	6/20/2023	2,100,000.00	2,080,558.59	2,056,530.00	(24,028.59)	1,147.54	12/15/2025	4.40%	\$ (1,147.54)	\$ 2,515.25	\$ 23,140.27	807
Colgate-Palmolive	194162AR4	Corporate Bond	4.60%	7/14/2023	500,000.00	504,655.00	494,610.00	(10,045.00)		2/1/2028	4.37%	\$ 3,002.79	\$ -	\$ 4,696.73	1585
FannieMae	3135G06G3	Gov. Agency Debenture	0.50%	7/14/2023	500,000.00	455,157.00	454,730.00	(427.00)	465.28	11/7/2025	4.63%	\$ (465.28)	\$ -	\$ 4,663.83	769
FFCB	3133EPQC2	Gov. Agency Debenture	4.63%	7/17/2023	500,000.00	501,957.50	495,405.00	(6,552.50)		7/17/2026	4.48%	\$ -	\$ -	\$ 4,617.76	1021
FFCB	3133EPBM6	Gov. Agency Debenture	4.13%	7/14/2023	600,000.00	596,220.00	585,246.00	(10,974.00)		8/23/2027	4.29%	\$ 2,681.25	\$ -	\$ 5,485.47	1423
PNC Bank	69353RFJ2	Corporate Bond	3.25%	7/25/2023	1,000,000.00	921,490.00	905,030.00	(16,460.00)	270.83	12/23/2027	5.23%	\$ (270.83)	\$ -	\$ 9,228.89	1545
US Treasury	91282CFU0	US Treasury Note	4.13%	7/31/2023	1,300,000.00	1,290,660.60	1,272,271.00	(18,389.60)	13,406.25	10/31/2027	4.31%	\$ (13,406.25)	\$ -	\$ 9,328.83	1492
Toyota Motor Credit	89236TKL8	Corporate Bond	5.45%	8/25/2023	1,600,000.00	1,617,168.00	1,605,728.00	(11,440.00)	25,433.33	11/10/2027	5.16%	\$ (25,433.33)	\$ -	\$ 8,198.70	1502
Subtotal						\$ 49,536,000.00	\$ 49,141,657.13	\$ 47,942,751.08	\$ (1,198,906.05)	\$ 40,879.49					
												\$ 1,567,711.35	\$ 1,298,850.54	\$ 280,223.25	
BNY MM						134,420.97	134,420.97	0.00			0.00%				1
LAIF						11,138,241.57	10,985,733.86	(152,507.71)			3.53%			139,864.59	1
						\$60,414,319.67	\$59,062,905.91	\$ (1,351,413.76)	\$40,879.49						
												\$ 1,567,711.35	\$ 1,298,850.54	\$ 420,087.84	
Matured Assets															
					Amount	Percent									
0-1 year					\$ 35,317,547.69	60%									
1-2 years					\$5,006,976.85	8%									
2-3 years					\$6,806,830.37	11%									
3-5 years					\$ 12,197,742.32	21%									
Total Investments "Matured"														\$ 1,799.21	
Total Interest FY 23_24 Matured and Current														\$ 421,887.06	
Maturity Profile															
					Amount	Percent									
0-1 year					\$ 35,317,547.69	60%									
1-2 years					\$5,006,976.85	8%									
2-3 years					\$6,806,830.37	11%									
3-5 years					\$ 12,197,742.32	21%									

Town of Los Gatos								
Insight ESG Ratings as of September 30, 2023								
Security Description	Maturity Date	Par/Shares	Moody Rating	S&P Rating	Insight ESG Rating	Environment	Social	Governance
AMERICAN HONDA FINANCE 3.625% 10OCT2023	10/10/2023	\$ 950,000	A3	A-	2	1	3	3
JPMORGAN CHASE & CO 3.875% 01FEB2024	2/1/2024	\$ 1,400,000	A1	A-	3	1	3	4
US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24)	2/5/2024	\$ 1,000,000	A3	A	3	3	4	4
IBM CORP 3.0% 15MAY2024	5/15/2024	\$ 1,000,000	A3	A-	2	1	2	3
CATERPILLAR FIN SERVICES 2.85% 17MAY24	5/17/2024	\$ 1,000,000	A2	A	4	4	3	4
AMERICAN HONDA FINANCE 2.4% 27JUN2024	6/27/2024	\$ 1,000,000	A3	A-	2	1	3	3
HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24)	8/15/2024	\$ 1,000,000	A2	A	4	3	4	3
HOME DEPOT INC. 3% 01APR2026 (CALLABLE 01JAN2026)	4/1/2026	\$ 1,000,000	A2	A	2	2	2	3
JPMORGAN CHASE & CO 3.2 15JUN2026 (CALLABLE 15MAR2026)	6/15/2026	\$ 500,000	A1	A-	3	1	3	4
APPLE INC. 2.9% 12SEP2027 (CALLABLE 12JUN2027)	9/12/2027	\$ 1,300,000	Aaa	AA+	4	1	4	5
TOYOTA MOTOR CREDIT CORP 5.45% 10NOV2027	11/10/2027	\$ 1,600,000	A1	A+	3	2	3	4
AMERICAN HONDA FINANCE 4.7% 12JAN2028	1/12/2028	\$ 600,000	A3	A-	2	1	3	3
PNC BANK NA 3.25% 22JAN2028 (CALLABLE 01 FEB28)	1/22/2028	\$ 1,000,000	A2	A	3	2	3	3
COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	3/1/2028	\$ 500,000	Aa3	AA-	3	3	3	3
Total/Average		\$ 13,850,000			2.9	1.9	3.1	3.5

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

Fund Schedule

Item 3.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2023*	Increase/ (Decrease) July - August	Sep 2023				Estimated Fund Balance 9/30/2023**
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
111	GENERAL FUND							
	Non-Spendable:							
	Loans Receivable	159,000	-	-	-	-	-	159,000
	Restricted Fund Balances:							
	Pension	1,400,163	-	-	-	-	-	1,400,163
	Land Held for Resale	44,338	-	-	-	-	-	44,338
	Committed Fund Balances:							
	Budget Stabilization	6,129,774	-	-	-	-	-	6,129,774
	Catastrophic	6,129,775	-	-	-	-	-	6,129,775
	Pension/OPEB	300,000	-	-	-	-	-	300,000
	Measure G District Sales Tax	590,581	-	-	-	-	-	590,581
	Assigned Fund Balances:							
	Open Space	410,000	-	-	-	-	-	410,000
	Sustainability	140,553	-	-	-	-	-	140,553
	Capital/Special Projects	10,359,577	-	-	-	-	-	10,359,577
	Carryover Encumbrances	37,698	-	-	-	-	-	37,698
	Compensated Absences	1,580,623	-	-	-	-	-	1,580,623
	ERAF Risk Reserve	689,608	-	-	-	-	-	689,608
	Council Priorities - Economic Recovery	1,556,614	-	-	-	-	-	1,556,614
	Unassigned Fund Balances:							
	Other Unassigned Fund Balance Reserve (Pre YE distribution)	-	(2,199,604)	1,017,592	(2,911,590)	-	-	(4,093,602)
	General Fund Total	29,528,304	(2,199,604)	1,017,592	(2,911,590)	-	-	25,434,702

* Interfund transfers and ARPA funding allocation to be performed as part of the fiscal year end closing entries.

** Interfund transfers to be performed as part of the fiscal year end closing entries.

Fund Schedule

Item 3.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2023*	Increase/ (Decrease) July - August	Sep 2023				Estimated Fund Balance 9/30/2023**
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
	SPECIAL REVENUE							
211/212	CDBG	166,653	-	-	-	-	-	166,653
222	Urban Runoff (NPDES)	629,843	1,845	-	(15,367)	-	-	616,322
231-236	Landscape & Lighting Districts	176,964	(2,520)	-	(3,558)	-	-	170,886
241	ARPA	-	-	-	-	-	-	-
251	Los Gatos Theatre	74,991	10,842	5,514	(15,259)	-	-	76,088
711-716	Library Trusts	530,173	(12,355)	87,300	(1,543)	-	-	603,575
	Special Revenue Total	1,578,624	(2,188)	92,814	(35,727)	-	-	1,633,524
	CAPITAL PROJECTS							
411	GFAR - General Fund Appropriated Reserve	21,725,837	(163)	8,000	(1,714,695)	-	-	20,018,979
421	Grant Funded Projects	(406,890)	471,046	-	(167,604)	-	-	(103,448)
461-463	Storm Basin Projects	3,218,331	10,631	31,615	-	-	-	3,260,577
471	Traffic Mitigation Projects	431,079	-	4,175	(4,175)	-	-	431,079
472	Utility Undergrounding Projects	3,438,996	-	-	-	-	-	3,438,996
481	Gas Tax Projects	1,671,245	168,134	-	(367,232)	-	-	1,472,147
	Capital Projects Total	30,078,598	649,648	43,790	(2,253,706)	-	-	28,518,330
	INTERNAL SERVICE FUNDS							
611	Town General Liability	212,022	(992,484)	-	(16,541)	-	-	(797,003)
612	Workers Compensation	514,813	(319,546)	-	(4,599)	-	-	190,668
621	Information Technology	2,474,618	(387,365)	10,079	(19,866)	-	-	2,077,466
631	Vehicle & Equipment Replacement	2,413,719	1,460	-	(26,035)	-	-	2,389,144
633	Facility Maintenance	927,699	(61,081)	5,933	(119,621)	-	-	752,930
	Internal Service Funds Total	6,542,871	(1,759,016)	16,012	(186,662)	-	-	4,613,205
	Trust/Agency							
942	RDA Successor Agency	(6,187,789)	(1,671,877)	-	(127)	-	-	(7,859,793)
	Trust/Agency Fund Total	(6,187,789)	(1,671,877)	-	(127)	-	-	(7,859,793)
	Total Town	61,540,608		1,170,208	(5,387,812)	-	-	52,339,968

* Interfund transfers and ARPA funding allocation to be performed as part of the fiscal year end closing entries.

** Interfund transfers to be performed as part of the fiscal year end closing entries.

Deposit Accounts of Interest:

111-23541 General Plan Update deposit account balance \$950,229.66

111-23521 BMP Housing deposit account balance \$4,021,280.60

Town of Los Gatos
Summary Investment Information
October 31, 2023

Weighted Average YTM Portfolio Yield on Investments under Management

4.12%

Weighted Average Maturity (days)

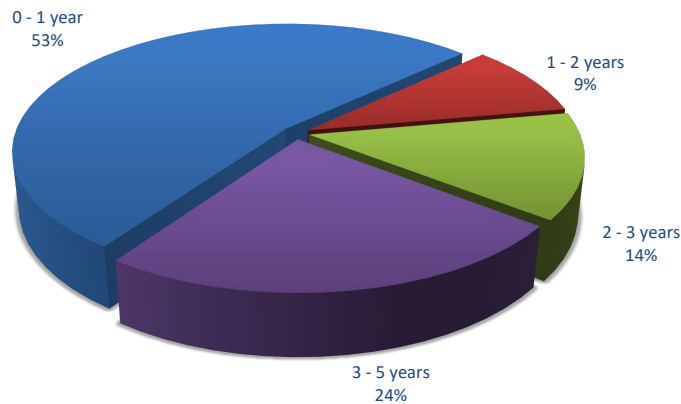
579

	This Month	Last Month	One year ago
Portfolio Allocation & Treasurer's Cash Balances	\$64,959,590	\$66,196,260	\$62,569,240
Cert. of Participation 2002 Lease Payment Fund			
Managed Investments	\$49,338,863		
Local Agency Investment Fund	\$11,278,106		
Reconciled Demand Deposit Balances	\$4,342,621		
Portfolio Allocation & Treasurer's Cash Balances	\$64,959,590		

Benchmarks/ References:

Town's Average Yield	4.12%	3.77%	1.82%
LAIF Yield for month	3.67%	3.53%	1.77%
3 mo. Treasury	5.48%	5.46%	4.09%
6 mo. Treasury	5.57%	5.55%	4.55%
2 yr. Treasury	5.09%	5.05%	4.49%
5 yr. Treasury (most recent)	4.86%	4.61%	4.23%
10 Yr. Treasury	4.93%	4.57%	4.05%

Portfolio Maturity Profile



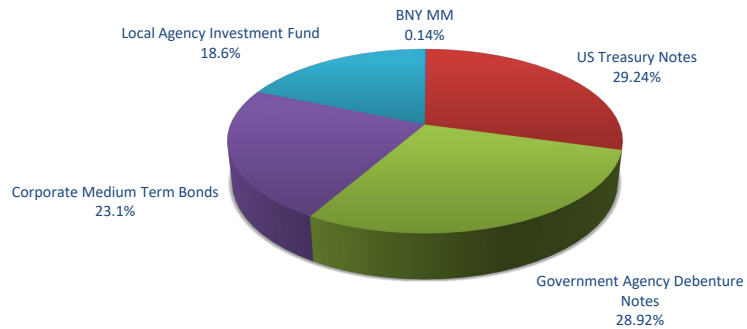
Compliance: The Town's investments are in compliance with the Town's investment policy dated February 21, 2023 and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands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

Town of Los Gatos
Portfolio Allocation & Treasurer's Cash Balances
October 31, 2023

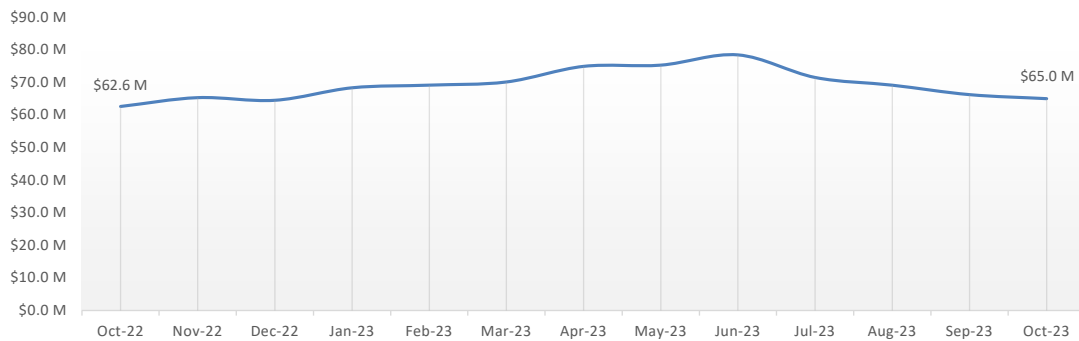
	Month	YTD
Cash & Investment Balances - Beginning of Month/Period	\$ 66,196,259.64	\$ 78,384,947.79
Receipts	3,368,781.49	20,419,734.82
Disbursements	(4,605,450.81)	(33,845,092.29)
Cash & Investment Balances - End of Month/Period	<u>\$64,959,590.32</u>	<u>\$64,959,590.32</u>

Portfolio Allocation	Amount	% of Portfolio	Max. % or \$ Allowed per State Law or Policy
BNY MM	\$83,335.30	0.14%	20% of Town Portfolio
US Treasury Notes	\$17,721,904.21	29.24%	No Max. on US Treasuries
Government Agency Debenture Notes	\$17,528,739.65	28.92%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,004,884.01	23.10%	30% of Town Portfolio
Local Agency Investment Fund	\$11,278,106.16	18.61%	\$75 M per State Law
Subtotal - Investments	<u>60,616,969.33</u>	<u>100.00%</u>	
Reconciled Demand Deposit Balances	<u>4,342,620.99</u>		
Total Portfolio Allocation & Treasurer's Cash Balances	<u>\$64,959,590.32</u>		

Portfolio Investment Allocation



Treasurer's Fund Balances



Town of Los Gatos
Non-Treasury Restricted Fund Balances
October 31, 2023

	Beginning Balance	October 2023 Deposits Realized Gain/Adj.	October 2023 Interest/ Earnings	October 2023 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Series A Reserve Fund	\$ 704,005.52		\$ 2,789.89		\$ 706,795.41	Note 1
Cert. Of Participation 2010 Ser A Lease Pymt Fund	783.89		3.35		787.24	Note 1
Cert. of Participation 2002 Lease Payment Fund	433.18		1.80		434.98	Note 1
Cert. of Participation 2010 Series Reserve Fund	1,335,686.18		5,731.37		1,341,417.55	Note 2
Total Restricted Funds:	<u>\$ 2,040,908.77</u>	<u>\$ -</u>	<u>\$ 8,526.41</u>	<u>\$ -</u>	<u>\$ 2,049,435.18</u>	
CEPPT IRS Section 115 Trust	1,351,902.66		(29,242.70)		\$ 1,322,659.96	
Grand Total COP's and CEPPT Trust	<u>\$ 3,392,811.43</u>	<u>\$ -</u>	<u>\$ (20,716.29)</u>	<u>\$ -</u>	<u>\$ 3,372,095.14</u>	

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

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

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

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

Town of Los Gatos
Statement of Interest Earned
October 31, 2023

Interest by Month

July 2023	\$	133,845.42
August 2023		129,679.93
September 2023		158,361.71
October 2023		151,048.03
November 2023		-
December 2023		-
January 2024		-
February 2024		-
March 2024		-
April 2024		-
May 2024		-
June 2024		-
	\$	<u>572,935.09</u>

**Town of Los Gatos Investment Schedule
October 31, 2023**

Item 3.

Institution	CUSIP #	Security	Coupon	Deposit Date	Par Value	Original Cost	Market Value	Market Value Above (Under) Cost	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
FFCB	3133EKM1	Gov. Agency Debenture	2.23%	8/2/2019	1,000,000.00	1,014,400.00	989,430.00	(24,970.00)		2/23/2024	1.90%	\$ 96,075.83	\$ 74,902.07	\$ 6,451.65	115
FFCB	3133EMBE1	Gov. Agency Debenture	0.30%	10/8/2020	1,600,000.00	1,598,000.00	1,565,504.00	(32,496.00)		3/28/2024	0.34%	\$ 14,253.34	\$ 14,655.57	\$ 1,811.69	149
Apple	037833DB3	Corporate Bond	2.90%	12/20/2022	1,300,000.00	1,228,591.00	1,196,000.00	(32,591.00)		6/21/2027	4.19%	\$ 27,437.22	\$ 28,170.97	\$ 18,047.03	1329
Cert. of Participation 2002 Le	437076BM3	Corporate Bond	3.00%	8/4/2022	1,000,000.00	991,960.00	945,580.00	(46,380.00)		1/1/2026	3.04%	\$ 34,750.00	\$ 29,252.66	\$ 10,903.26	793
US Treasury	912828ZW3	US Treasury Note	0.25%	8/9/2022	350,000.00	322,096.88	322,780.50	683.62		6/30/2025	3.16%	\$ 779.89	\$ 9,366.72	\$ 3,544.94	608
IBM	459200YF8	Corporate Bond	3.00%	3/25/2021	1,000,000.00	1,071,040.00	985,190.00	(85,850.00)		5/15/2024	0.71%	\$ 64,166.67	\$ 16,751.96	\$ 2,491.52	197
FFCB	3133ENS58	Gov. Agency Debenture	4.13%	1/17/2023	236,000.00	239,174.20	229,712.96	(9,461.24)		1/11/2027	3.76%	\$ 4,705.25	\$ 4,016.30	\$ 3,012.23	1168
US Treasury	91282CBT7	US Treasury Note	0.75%	9/30/2022	800,000.00	712,565.18	724,528.00	11,962.82		3/31/2026	4.14%	\$ 6,000.00	\$ 23,165.06	\$ 10,437.01	882
FFCB	3133ENP95	Gov. Agency Debenture	4.25%	9/30/2022	900,000.00	900,939.60	882,495.00	(18,444.60)		9/30/2025	4.14%	\$ 38,250.00	\$ 28,374.86	\$ 12,784.28	700
US Treasury	91282CAW1	US Treasury Note	0.25%	7/15/2021	1,200,000.00	1,199,437.50	1,197,672.00	(1,765.50)		11/15/2023	0.27%	\$ 5,502.72	\$ 6,348.21	\$ 1,092.07	15
American Honda	02665WCZ2	Corporate Bond	2.40%	11/27/2019	1,000,000.00	1,012,410.01	977,810.00	(34,600.01)		6/27/2024	2.12%	\$ 96,733.34	\$ 76,483.79	\$ 7,175.82	240
JP Morgan Chase	46625HRS1	Corporate Bond	3.20%	9/23/2022	500,000.00	474,660.00	468,735.00	(5,925.00)		3/15/2026	4.70%	\$ 11,644.44	\$ 17,865.15	\$ 7,847.90	866
Honeywell Int'l.	438516BW5	Corporate Bond	2.30%	11/20/2019	1,000,000.00	1,014,660.00	974,100.00	(40,560.00)		7/15/2024	1.64%	\$ 85,483.33	\$ 71,679.55	\$ 6,689.37	258
Caterpillar Financial Serv	14913QZV0	Corporate Bond	2.85%	2/23/2021	1,000,000.00	1,077,370.00	984,390.00	(92,980.00)		5/17/2024	0.44%	\$ 63,650.00	\$ 10,677.18	\$ 1,532.43	199
FNMA	3135G0V75	Gov. Agency Debenture	1.75%	10/17/2019	1,000,000.00	1,105,833.30	1,073,204.00	(32,629.30)		7/2/2024	1.63%	\$ 71,706.25	\$ 66,718.86	\$ 6,069.84	245
US Bancorp	91159HHV5	Corporate Bond	3.38%	12/24/2019	1,000,000.00	1,049,040.00	992,800.00	(56,240.00)		1/5/2024	2.12%	\$ 121,968.75	\$ 75,978.33	\$ 7,278.30	66
FFCB	3133EKQA7	Gov. Agency Debenture	2.08%	10/21/2019	1,000,000.00	1,019,780.00	969,310.00	(50,470.00)		9/10/2024	1.66%	\$ 80,831.11	\$ 61,888.40	\$ 5,647.09	315
FHLB	3135G0S7	Gov. Agency Debenture	0.38%	6/10/2022	1,200,000.00	1,102,952.40	1,100,844.00	(2,108.40)		8/25/2025	3.04%	\$ 5,437.50	\$ 36,626.55	\$ 11,701.47	664
US Treasury	912828ZL7	US Treasury Note	0.38%	4/12/2022	1,700,000.00	1,583,927.57	1,582,071.00	(1,856.57)		4/30/2025	2.72%	\$ 9,879.49	\$ 54,017.06	\$ 14,964.18	547
JP Morgan Chase	46625HJ78	Corporate Bond	3.88%	9/23/2019	1,400,000.00	1,485,414.00	1,393,126.00	(92,288.00)		2/1/2024	2.39%	\$ 209,163.89	\$ 130,689.90	\$ 11,682.31	93
US Treasury	912828V23	US Treasury Note	2.25%	11/29/2021	1,000,000.00	1,032,933.04	994,680.00	(38,253.04)		12/31/2023	0.66%	\$ 35,706.52	\$ 10,649.43	\$ 2,266.23	61
US Treasury	91282CB02	US Treasury Note	0.13%	10/7/2021	1,000,000.00	994,768.98	989,380.00	(5,388.98)		1/15/2024	0.36%	\$ 2,214.67	\$ 6,137.79	\$ 1,196.43	76
FHLB	3130ALH98	Gov. Agency Debenture	0.25%	2/26/2021	1,000,000.00	997,610.00	983,320.00	(14,290.00)		2/26/2024	0.33%	\$ 6,250.00	\$ 7,713.30	\$ 1,110.93	118
FHLB	3130AQF65	Gov. Agency Debenture	1.25%	11/30/2022	1,300,000.00	1,160,559.40	1,160,549.00	(10.40)		12/21/2026	4.15%	\$ 9,072.92	\$ 29,385.32	\$ 17,049.03	1147
US Treasury	912828U57	US Treasury Note	2.13%	7/31/2019	1,000,000.00	1,011,875.00	997,390.00	(14,485.00)		11/30/2023	1.84%	\$ 81,458.33	\$ 72,526.17	\$ 6,238.26	30
US Treasury	912828X70	US Treasury Note	2.20%	12/30/2019	1,000,000.00	1,010,589.29	982,850.00	(27,739.29)		4/30/2024	1.75%	\$ 84,703.30	\$ 68,481.11	\$ 6,590.90	182
US Treasury	912828XT2	US Treasury Note	2.00%	10/31/2019	1,000,000.00	1,015,667.41	980,080.00	(35,587.41)		5/31/2024	1.64%	\$ 71,639.34	\$ 60,792.37	\$ 5,588.54	213
FFCB	3133EJ3Q0	Gov. Agency Debenture	2.88%	8/28/2019	1,500,000.00	1,587,503.75	1,494,540.00	(92,963.75)		12/21/2023	2.12%	\$ 164,473.96	\$ 87,804.46	\$ 7,703.24	51
US Treasury	91282CB0E	US Treasury Note	0.13%	9/15/2021	650,000.00	647,615.46	643,097.00	(4,518.46)		1/15/2024	0.28%	\$ 1,488.12	\$ 3,281.18	\$ 618.05	76
FHLB	3130APJH9	Gov. Agency Debenture	0.75%	1/17/2023	1,000,000.00	907,010.00	905,010.00	(2,000.00)		10/28/2026	4.17%	\$ 5,854.17	\$ 14,420.85	\$ 10,815.64	1093
FFCB	3133ENS56	Gov. Agency Debenture	4.00%	2/8/2023	1,700,000.00	1,706,732.00	1,633,751.00	(72,981.00)		1/6/2028	3.91%	\$ 27,955.56	\$ 25,921.64	\$ 22,453.25	1528
Freddie Mac	3137EAE3	Gov. Agency Debenture	0.04%	5/1/2023	750,000.00	689,032.50	685,845.00	(3,187.50)	156.26	9/23/2025	3.97%	\$ (156.26)	\$ 4,222.09	\$ 8,655.28	693
American Honda	02665WEF9	Corporate Bond	4.70%	5/11/2023	600,000.00	680,856.00	576,972.00	(31,884.00)		1/12/2028	4.34%	\$ 4,778.33	\$ 3,603.61	\$ 8,864.88	1534
US Treasury	91282CE4	US Treasury Note	2.50%	6/9/2023	1,500,000.00	1,416,626.12	1,389,675.00	(26,951.12)		3/31/2027	4.09%	\$ 11,577.87	\$ 3,416.23	\$ 20,009.37	1247
US Treasury	91282CGA3	US Treasury Note	4.00%	6/20/2023	2,100,000.00	2,080,558.59	2,055,627.00	(24,931.59)	1,147.54	12/15/2025	4.40%	\$ (1,147.54)	\$ 2,515.25	\$ 30,937.54	776
Colgate-Palmolive	194162AR4	Corporate Bond	4.60%	7/14/2023	500,000.00	504,655.00	489,990.00	(14,665.00)		2/1/2028	4.37%	\$ 3,002.79	\$ -	\$ 6,563.38	1554
FannieMae	3135G0G63	Gov. Agency Debenture	0.50%	7/14/2023	500,000.00	455,157.00	455,815.00	658.00	465.28	11/7/2025	4.63%	\$ (465.28)	\$ -	\$ 6,517.40	738
FFCB	3133EPOC2	Gov. Agency Debenture	4.63%	7/17/2023	500,000.00	501,957.50	494,115.00	(7,842.50)		7/17/2026	4.48%	\$ -	\$ -	\$ 6,526.43	990
FFCB	3133EPBM6	Gov. Agency Debenture	4.13%	7/14/2023	600,000.00	596,220.00	581,172.00	(15,048.00)		8/23/2027	4.29%	\$ 2,681.25	\$ -	\$ 7,665.59	1392
PNC Bank	69353RFJ2	Corporate Bond	3.25%	7/25/2023	1,000,000.00	921,490.00	894,400.00	(27,090.00)	270.83	12/23/2027	5.23%	\$ (270.83)	\$ -	\$ 13,498.97	1514
US Treasury	91282CFU0	US Treasury Note	4.13%	7/31/2023	1,300,000.00	1,290,660.60	1,265,160.00	(25,500.60)		10/31/2027	4.31%	\$ 13,406.25	\$ -	\$ 14,069.71	1461
Toyota Motor Credit	89236TKL8	Corporate Bond	5.45%	8/25/2023	1,600,000.00	1,617,168.00	1,595,264.00	(21,904.00)	25,433.33	11/10/2027	5.16%	\$ (25,433.33)	\$ -	\$ 15,258.68	1471
US Treasury	912810FE3	US Treasury Note	5.50%	10/3/2023	1,200,000.00	1,238,207.14	1,233,564.00	(4,643.14)	8,788.04	8/15/2028	4.76%	\$ (8,788.04)	\$ -	\$ 4,461.33	1750
Pepsico Inc	713448DF2	Corporate Bond	2.85%	10/16/2023	1,000,000.00	947,570.00	947,740.00	170.00	4,116.67	11/24/2025	5.24%	\$ (4,116.67)	\$ -	\$ 2,192.60	755
FFCB	3133EPUW3	Gov. Agency Debenture	4.75%	10/13/2023	1,000,000.00	994,338.00	993,700.00	(638.00)	5,541.67	9/1/2026	4.96%	\$ (5,541.67)	\$ -	\$ 2,439.16	1036
Freddie Mac	3137EAE0P	Gov. Agency Debenture	1.50%	10/13/2023	1,000,000.00	951,540.00	953,030.00	1,490.00	2,541.67	2/12/2025	5.32%	\$ (2,541.67)	\$ -	\$ 2,527.19	470
US Treasury	91282CEW7	US Treasury Note	3.25%	10/16/2023	1,000,000.00	950,039.06	946,130.00	(3,909.06)	9,538.04	6/30/2027	4.73%	\$ (9,538.04)	\$ -	\$ 1,889.51	1338
US Treasury	91282CEN7	US Treasury Note	2.75%	10/31/2023	1,300,000.00	1,214,336.39	1,211,847.00	(2,489.39)		4/30/2027	4.82%	\$ -	\$ -	\$ -	1277
Subtotal					\$ 49,886,000.00	\$ 49,255,527.87	\$ 48,089,975.46	\$ (1,165,552.41)	\$ 57,999.33						
										\$ 1,516,683.08	\$ 1,238,499.95	\$ 384,871.92			
BNY MM		Money Market			83,335.30	83,335.30	83,335.30	0.00			0.00%				1
LAIF		State Investment Pool			11,278,106.16	11,123,683.39	11,123,683.39	(154,422.77)			3.67%			174,356.80	1
					\$60,616,969.33	\$59,296,994.15	\$ (1,319,975.18)	\$57,999.33							
										\$ 1,516,683.08	\$ 1,238,499.95	\$ 559,228.72			

Matured Assets															
PNC Financial	69349LAM0	Corporate Bond	3.80%	2/7/2022	1,000,000.00	1,033,470.00				7/25/2023	1.49%	\$ 55,733.33	\$ 20,987.56	\$ 1,032.85	
US Treasury	91282CCN9	US Treasury Note	0.13%	1/13/2022	1,200,000.00	1,188,375.00				7/31/2023	0.75%	\$ 2,323.37	\$ 13,176.45	\$ 766.36	
Toyota Motor Credit	89236THA6	Corporate Bond	1.35%	4/12/2021	500,000.00	510,580.00				8/25/2023	0.45%	\$ 15,993.75	\$ 5,065.91	\$ 350.67	
Toyota Motor Credit	89236THA6	Corporate Bond	1.35%	1/11/2022	1,100,000.00	1,107,315.00				8/25/2023	0.94%	\$ 24,090.00	\$ 15,144.57	\$ 1,585.23	
US Treasury	91282CDA6	US Treasury Note	0.25%	1/31/2022	1,100,000.00	1,085,222.44				9/30/2023	1.07%	\$ 4,570.74	\$ 16,417.94	\$ 2,932.91	
American Honda	02665WCQ2	Corporate Bond	3.63%	9/14/2021	950,000.00	1,012,871.00				10/10/2023	0.41%	\$ 71,362.15	\$ 7,316.05	\$ 1,141.03	
FFCB	3133EMCQ3	Gov. Agency Debenture	0.28%	10/16/2020	2,000,000.00	1,998,000.00				10/13/2023	0.31%	\$ 16,753.33	\$ 16,950.71	\$ 1,803.27	
US Treasury	91282CAP6	US Treasury Note	0.13%	6/30/2021	1,000,000.00	995,390.63				10/15/2023	0.33%	\$ 2,865.44	\$ 6,520.12	\$ 955.69	
US Treasury	91282CDD0	US Treasury Note	0.38%	1/13/2022	1,000,000.00	1,090,675.78				10/31/2023	0.85%	\$ 7,406.77	\$ 13,599.56	\$ 3,138.36	

Town of Los Gatos
Investment Transaction Detail
10/31/2023

Date	Cusip/Id	Description	Tran Type	Settlement Date	Par	Coupon	Maturity Date	Price	Principal	Interest	Transaction Total
10/2/2023	91282CDA6	USA TREASURY 0.25% 30SEP2023	BOND INTEREST	9/30/2023	1,100,000	0.250%	9/30/2023	-	-	1,375.00	1,375.00
10/2/2023	91282CEF4	USA TREASURY 2.5% 31MAR2027	BOND INTEREST	9/30/2023	1,500,000	2.500%	3/31/2027	-	-	18,750.00	18,750.00
10/2/2023	91282CBT7	USA TREASURY 0.75% 31MAR2026	BOND INTEREST	9/30/2023	800,000	0.750%	3/31/2026	-	-	3,000.00	3,000.00
10/2/2023	3133ENP95	FEDERAL FARM CREDIT BANK 4.25% 30SEP2023	BOND INTEREST	9/30/2023	900,000	4.250%	9/30/2025	-	-	19,125.00	19,125.00
10/2/2023	437076BM3	HOME DEPOT INC 3% 01APR2026 (CALLABLE 01JAN26)	BOND INTEREST	10/1/2023	1,000,000	3.000%	4/1/2026	-	-	15,000.00	15,000.00
10/2/2023	91282CDA6	USA TREASURY 0.25% 30SEP2023	REDEMPTION	10/2/2023	1,100,000	0.250%	9/30/2023	100.00	1,100,000.00	-	1,100,000.00
10/3/2023	912810FE3	USA TREASURY 5.5% 15AUG2028	PURCHASE	10/3/2023	1,200,000	5.500%	8/15/2028	103.18	1,238,207.15	8,788.04	1,246,995.19
10/3/2023	Cash-USD	Cash-USD	S-T INV FUND INCOME	10/3/2023	514.77	0.000%		100.00	-	-	514.77
10/10/2023	02665WCQ2	AMERICAN HONDA FINANCE 3.625% 10OCT2023	BOND INTEREST	10/10/2023	950,000	3.625%	10/10/2023	-	-	17,218.75	17,218.75
10/10/2023	02665WCQ2	AMERICAN HONDA FINANCE 3.625% 10OCT2023	REDEMPTION	10/10/2023	950,000	3.625%	10/10/2023	100.00	950,000.00	-	950,000.00
10/13/2023	3137EAP0	FREDDIE MAC 1.5% 12FEB2025	PURCHASE	10/13/2023	1,000,000	1.500%	2/12/2025	95.15	951,540.00	2,541.67	954,081.67
10/13/2023	3133EMCQ3	FEDERAL FARM CREDIT BANK 0.28% 13OCT2023 CALLABLE	BOND INTEREST	10/13/2023	2,000,000	0.280%	10/13/2023	-	-	2,800.00	2,800.00
10/13/2023	3133EMCQ3	FEDERAL FARM CREDIT BANK 0.28% 13OCT2023 CALLABLE	REDEMPTION	10/13/2023	2,000,000	0.280%	10/13/2023	100.00	2,000,000.00	-	2,000,000.00
10/16/2023	3133EPUW3	FEDERAL FARM CREDIT BANK 4.75% 01SEP2026	PURCHASE	10/16/2023	1,000,000	4.750%	9/1/2026	99.43	994,338.00	5,541.67	999,879.67
10/16/2023	713448DF2	PEPSICO INC 2.85% 24FEB2026 (CALLABLE 24NOV25)	PURCHASE	10/16/2023	1,000,000	2.850%	2/24/2026	94.76	947,570.00	4,116.67	951,686.67
10/16/2023	91282CEW7	USA TREASURY 3.25% 30JUN2027	PURCHASE	10/16/2023	1,000,000	3.250%	6/30/2027	95.00	950,039.06	9,538.04	959,577.10
10/16/2023	91282CAP6	USA TREASURY 0.125% 15OCT2023	BOND INTEREST	10/15/2023	1,000,000	0.125%	10/15/2023	-	-	625.00	625.00
10/16/2023	91282CAP6	USA TREASURY 0.125% 15OCT2023	REDEMPTION	10/16/2023	1,000,000	0.125%	10/15/2023	100.00	1,000,000.00	-	1,000,000.00
10/30/2023	3130APJH9	FEDERAL HOME LOAN BANK 1% 28OCT2026 (CALLABLE 28JAN24) #0006	BOND INTEREST	10/28/2023	1,000,000	1.000%	10/28/2026	-	-	5,000.00	5,000.00
10/31/2023	91282CEN7	USA TREASURY 2.75% 30APR2027	PURCHASE	10/31/2023	1,300,000	2.750%	4/30/2027	93.41	1,214,336.39	-	1,214,336.39
10/31/2023	912828X70	USA TREASURY 2% 30APR2024	BOND INTEREST	10/31/2023	1,000,000	2.000%	4/30/2024	-	-	10,000.00	10,000.00
10/31/2023	912828ZL7	USA TREASURY 0.375% 30APR2025	BOND INTEREST	10/31/2023	1,700,000	0.375%	4/30/2025	-	-	3,187.50	3,187.50
10/31/2023	91282CFU0	USA TREASURY 4.125% 31OCT2027	BOND INTEREST	10/31/2023	1,300,000	4.125%	10/31/2027	-	-	26,812.50	26,812.50
10/31/2023	91282CDD0	USA TREASURY 0.375% 31OCT2023	BOND INTEREST	10/31/2023	1,100,000	0.375%	10/31/2023	-	-	2,062.50	2,062.50
10/31/2023	91282CDD0	USA TREASURY 0.375% 31OCT2023	REDEMPTION	10/31/2023	1,100,000	0.375%	10/31/2023	100.00	1,100,000.00	-	1,100,000.00

Town of Los Gatos

Insight ESG Ratings as of October 31, 2023

Security Description	Maturity Date	Par/Shares	Moody Rating	S&P Rating	Insight ESG Rating	Environment	Social	Governance
JPMORGAN CHASE & CO 3.875% 01FEB2024	2/1/2024	\$ 1,400,000	A1	A-	3	1	3	4
US BANCORP 3.375% 05FEB2024 (CALLABLE 05JAN24)	2/5/2024	\$ 1,000,000	A3	A	3	3	4	4
IBM CORP 3.0% 15MAY2024	5/15/2024	\$ 1,000,000	A3	A-	2	1	2	3
CATERPILLAR FIN SERVICES 2.85% 17MAY24	5/17/2024	\$ 1,000,000	A2	A	4	4	3	4
AMERICAN HONDA FINANCE 2.4% 27JUN2024	6/27/2024	\$ 1,000,000	A3	A-	2	1	3	3
HONEYWELL INTERNATIONAL 2.3% 15AUG2024 (CALLABLE 15JUL24)	8/15/2024	\$ 1,000,000	A2	A	4	3	4	3
PEPSICO INC 2.85% 24FEB2026 (CALLABLE 24NOV25)	2/24/2026	\$ 1,000,000	A1	A+	2	2	2	2
HOME DEPOT INC. 3% 01APR2026 (CALLABLE 01JAN2026)	4/1/2026	\$ 1,000,000	A2	A	2	2	2	3
JPMORGAN CHASE & CO 3.2 15JUN2026 (CALLABLE 15MAR26)	6/15/2026	\$ 500,000	A1	A-	3	1	3	4
APPLE INC. 2.9% 12SEP2027 (CALLABLE 12JUN27)	9/12/2027	\$ 1,300,000	Aaa	AA+	4	1	4	5
TOYOTA MOTOR CREDIT CORP 5.45% 10NOV2027	11/10/2027	\$ 1,600,000	A1	A+	3	2	3	4
AMERICAN HONDA FINANCE 4.7% 12JAN2028	1/12/2028	\$ 600,000	A3	A-	2	1	3	3
PNC BANK NA 3.25% 22JAN2028 (CALLABLE 01 FEB28)	1/22/2028	\$ 1,000,000	A2	A	3	2	3	3
COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	3/1/2028	\$ 500,000	Aa3	AA-	3	3	3	3
Total/Average		\$ 13,900,000			2.9	1.9	3.0	3.4

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

Fund Schedule

Item 3.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2023*	Increase/ (Decrease) July - Sept	Oct 2023				Estimated Fund Balance 10/31/2023**
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
111	GENERAL FUND							
	Non-Spendable:							
	Loans Receivable	159,000	-	-	-	-	-	159,000
	Restricted Fund Balances:							
	Pension	1,400,163	-	-	-	-	-	1,400,163
	Land Held for Resale	44,338	-	-	-	-	-	44,338
	Committed Fund Balances:							
	Budget Stabilization	6,129,774	-	-	-	-	-	6,129,774
	Catastrophic	6,129,775	-	-	-	-	-	6,129,775
	Pension/OPEB	300,000	-	-	-	-	-	300,000
	Measure G District Sales Tax	590,581	-	-	-	-	-	590,581
	Assigned Fund Balances:							
	Open Space	410,000	-	-	-	-	-	410,000
	Sustainability	140,553	-	-	-	-	-	140,553
	Capital/Special Projects	10,359,577	-	-	-	-	-	10,359,577
	Carryover Encumbrances	37,698	-	-	-	-	-	37,698
	Compensated Absences	1,580,623	-	-	-	-	-	1,580,623
	ERAF Risk Reserve	689,608	-	-	-	-	-	689,608
	Council Priorities - Economic Recovery	1,556,614	-	-	-	-	-	1,556,614
	Unassigned Fund Balances:							
	Other Unassigned Fund Balance Reserve (Pre YE distribution)	-	(3,923,476)	2,954,406	(3,899,805)	-	-	(4,868,875)
	General Fund Total	29,528,304	(3,923,476)	2,954,406	(3,899,805)	-	-	24,659,429.00

* Interfund transfers and ARPA funding allocation to be performed as part of the fiscal year end closing entries.

** Interfund transfers to be performed as part of the fiscal year end closing entries.

Fund Schedule

Item 3.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2023*	Increase/ (Decrease) July - Sept	Oct 2023				Estimated Fund Balance 10/31/2023**
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
	SPECIAL REVENUE							
211/212	CDBG	166,653	-	-	-	-	-	166,653
222	Urban Runoff (NPDES)	629,843	11,410	29,996	(17,371)	-	-	653,878
231-236	Landscape & Lighting Districts	176,964	(6,078)	-	(2,701)	-	-	168,185
241	ARPA	-	-	-	-	-	-	-
251	Los Gatos Theatre	74,991	1,097	5,514	(429)	-	-	81,173
711-716	Library Trusts	530,173	72,307	111	(2,429)	-	-	600,162
	Special Revenue Total	1,578,624	78,736	35,621	(22,930)	-	-	1,670,051
	CAPITAL PROJECTS							
411	GFAR - General Fund Appropriated Reserve	21,725,837	(1,574,042)	780,830	(343,858)	-	-	20,588,767
421	Grant Funded Projects	(406,889)	303,442	29,620	(50,515)	-	-	(124,342)
461-463	Storm Basin Projects	3,218,331	67,555	4,394	-	-	-	3,290,280
471	Traffic Mitigation Projects	431,079	-	1,253	(1,253)	-	-	431,079
472	Utility Undergrounding Projects	3,438,996	9,797	861	-	-	-	3,449,654
481	Gas Tax Projects	1,671,245	(128,520)	234,297	(860,053)	-	-	916,969
	Capital Projects Total	30,078,599	(1,321,768)	1,051,255	(1,255,679)	-	-	28,552,407
	INTERNAL SERVICE FUNDS							
611	Town General Liability	212,022	(1,009,025)	-	(5,634)	-	-	(802,637)
612	Workers Compensation	514,813	(536,612)	30,847	(188,861)	-	-	(179,813)
621	Information Technology	2,474,618	(222,095)	8,947	(59,966)	-	-	2,201,504
631	Vehicle & Equipment Replacement	2,413,719	232,110	-	-	-	-	2,645,829
633	Facility Maintenance	927,699	55,683	6,794	(90,940)	-	-	899,236
	Internal Service Funds Total	6,542,871	(1,479,939)	46,588	(345,401)	-	-	4,764,119
	Trust/Agency							
942	RDA Successor Agency	(6,187,789)	(1,672,055)	-	(1,905)	-	-	(7,861,749)
	Trust/Agency Fund Total	(6,187,789)	(1,672,055)	-	(1,905)	-	-	(7,861,749)
	Total Town	61,540,609		4,087,870	(5,525,720)	-	-	51,784,257

* Interfund transfers and ARPA funding allocation to be performed as part of the fiscal year end closing entries.

** Interfund transfers to be performed as part of the fiscal year end closing entries.

Deposit Accounts of Interest:

111-23541 General Plan Update deposit account balance \$1,030,658.57

111-23521 BMP Housing deposit account balance \$4,021,280.60



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/11/2023

ITEM NO: 4

Item 4.

DATE: December 6, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the CalPERS Public Employees' Retirement Fund (PERF) Performance Report as of September 30, 2023

RECOMMENDATION:

Receive the CalPERS Public Employees' Retirement Fund (PERF) Performance Report as of September 30, 2023.

DISCUSSION:

Attachment 1 contains the CalPERS PERF Performance Report as of September 30, 2023. As of September 30, 2023, the fund had a net return of negative 2.5%.

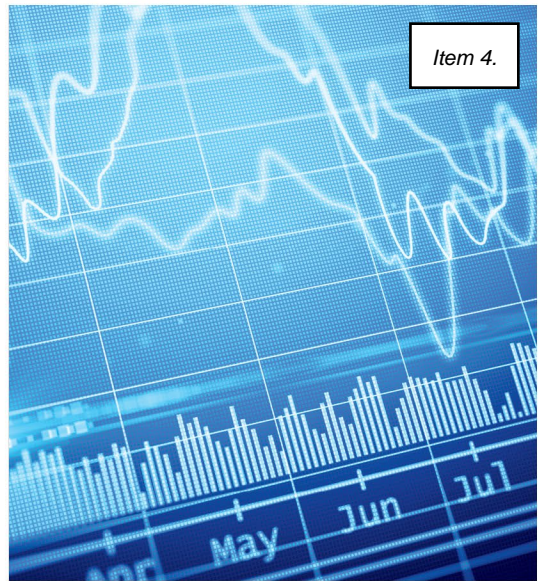
The Town Pension and OPEB Trusts Oversight Committee has received this report at its December 5, 2023 regular meeting.

Attachment:

1. PERF Performance as of September 30, 2023

PREPARED BY: Gitta Ungvari
Finance Director

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



Trust Level Review

As of September 30, 2023

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Section I. Highlights

Item 4.

Public Employees' Retirement Fund (PERF) Metrics

As of September 30, 2023

\$452.3bn

Assets Under
Management

6.3%

10-Yr
Total Return

(2.5)%

Fiscal Year-to-Date
Total Return

\$1.8bn

5-Yr Cumulative
Value Added

\$(1.7)bn

Fiscal Year to-Date
Value Added

13.5%

Forecasted
Volatility

16 bps

Forecasted
Actionable
Tracking Error

31.8%

Allocation to
Private Assets

2.3x

Tier 1 Liquidity
Coverage

\$67.9bn

Outstanding
Committed Capital

Quarter-End Highlights

Capital Markets

- Global public equity markets retreated in Q3 2023 as investors assessed the likelihood of "higher for longer" interest rates, concerns about slowing global growth, and soaring oil prices
- Global Public Equity portfolio returned (3.13)% which outperformed the benchmark return of (3.27)%
- Global Fixed Income portfolio returned (4.6)% which was equal to the benchmark return

Private Markets

- All applicable Private Market asset classes have positive returns for the 5-, 10-, and 20-Year periods
- The repricing of Real Estate continued to weigh on Real Asset absolute returns whilst relative returns outperformed benchmark
- Private Equity 1-Year relative returns are a function of differences in public and private valuation approaches with a strong recovery in public equities following an earlier drawdown

Total Fund Risk

- Portfolio risk metrics remain within expected ranges
- Actionable tracking error (allocation and public market strategies) at 16 bps is within the 100 bps Policy limit
- Outstanding committed capital to private assets is provisioned for with excess liquidity in public assets
- The plan maintains adequate liquidity with 2.3x coverage in 30-day stress scenario

Investment Process

- The recruitment process for the Chief Investment Officer position has started
- Team members initiated five 2023-24 Strategic Initiatives, focused on Pension Resiliency, Sustainable Investing, Stakeholder Engagement, Operational Excellence, and People and Culture

Section II. Performance Tables

Item 4.

PERF Returns As of September 30, 2023

PERF returned (2.5)% fiscal year-to-date and 8.7% for the trailing 1-Yr

- Equity 1-Yr returns were strong at 18.7% while Income returns were lower at 1.4%
- 1-Yr Private return were mixed, with Real Assets delivering negative absolute return (7.1%) but strong relative outperformance, whilst Private Debt and Private Equity delivered positive absolute but negative relative returns. Overall PERF returns over longer periods have fallen below the current 6.8% discount rate

	End Value (bn)	20-Yr	10-Yr	5-Yr	1-Yr	FYTD	1-Qtr
Total PERF	\$ 452.3	6.7%	6.3%	5.1%	8.7%	(2.5)%	(2.5)%
Benchmark		7.2%	6.3%	5.0%	9.7%	(2.2)%	(2.2)%
Excess		(42) bps	(4) bps	7 bps	(105) bps	(36) bps	(36) bps
Cumulative Value Added (bn)	\$ (15.1)	\$ (15.1)	\$ (0.3)	\$ 1.8	\$ (4.5)	\$ (1.7)	\$ (1.7)
Public Equity	\$ 198.1	7.8%	7.6%	6.0%	18.7%	(3.1)%	(3.1)%
Benchmark		7.9%	7.6%	5.9%	18.6%	(3.3)%	(3.3)%
Excess		(13) bps	6 bps	11 bps	13 bps	14 bps	14 bps
Cumulative Value Added (bn)	\$ (0.5)	\$ (0.5)	\$ 1.1	\$ 1.2	\$ 0.2	\$ 0.3	\$ 0.3
Private Equity	\$ 63.5	12.2%	11.6%	11.3%	6.4%	2.2%	2.2%
Benchmark		13.1%	11.9%	9.8%	18.5%	6.6%	6.6%
Excess		(89) bps	(36) bps	149 bps	(1,211) bps	(438) bps	(438) bps
Cumulative Value Added (bn)	\$ (8.9)	\$ (8.9)	\$ (3.4)	\$ 0.1	\$ (7.2)	\$ (2.7)	\$ (2.7)
Income	\$ 121.1	4.2%	1.9%	0.2%	1.4%	(4.6)%	(4.6)%
Benchmark		3.6%	1.4%	(0.0)%	1.5%	(4.6)%	(4.6)%
Excess		60 bps	46 bps	20 bps	(6) bps	1 bps	1 bps
Cumulative Value Added (bn)	\$ 5.5	\$ 5.5	\$ 3.0	\$ 1.1	\$ (0.0)	\$ 0.0	\$ 0.0
Real Assets	\$ 69.3	5.5%	7.3%	5.5%	(7.3)%	(1.7)%	(1.7)%
Benchmark		8.2%	7.4%	5.5%	(10.7)%	(2.8)%	(2.8)%
Excess		(268) bps	(6) bps	(4) bps	334 bps	103 bps	103 bps
Cumulative Value Added (bn)	\$ (13.0)	\$ (13.0)	\$ (1.2)	\$ (1.0)	\$ 2.4	\$ 0.7	\$ 0.7
Private Debt	\$ 10.9	-	-	-	10.7%	3.9%	3.9%
Benchmark		-	-	-	13.1%	3.6%	3.6%
Excess		-	-	-	(249) bps	24 bps	24 bps
Cumulative Value Added (bn)	-	-	-	-	\$ (0.2)	\$ 0.0	\$ 0.0
Net Financing	\$ (24.8)	-	-	-	-	-	-
Other Trust Level	\$ 14.2	-	-	-	-	-	-

Exhibit 2.1

All performance reported net of investment expenses and annualized for periods greater than 1-Yr unless noted as cumulative.

Section II. Performance Tables

Item 4.

PERF Capital Market Returns As of September 30, 2023

All Capital Market segments except High Yield started the fiscal year with negative returns; all segments positive over 10-Yr period

- Rising rates continue to challenge Income segment returns

	End Value (bn)	20-Yr	10-Yr	5-Yr	1-Yr	FYTD	1-Qtr
Cap Weighted	\$ 144.2	8.0%	8.0%	6.8%	21.2%	(3.1)%	(3.1)%
Benchmark		8.1%	7.9%	6.7%	21.0%	(3.2)%	(3.2)%
Excess		(13) bps	7 bps	13 bps	18 bps	18 bps	18 bps
Cumulative Value Added (bn)		\$ (0.8)	\$ 0.9	\$ 0.9	\$ 0.2	\$ 0.3	\$ 0.3
Factor Weighted	\$ 53.9	-	-	4.3%	11.9%	(3.3)%	(3.3)%
Benchmark		-	-	4.3%	11.9%	(3.3)%	(3.3)%
Excess		-	-	2 bps	2 bps	3 bps	3 bps
Cumulative Value Added (bn)		-	-	\$ 0.1	\$ 0.0	\$ 0.0	\$ 0.0
Treasury	\$ 22.3	-	0.3%	(2.3)%	(6.7)%	(9.3)%	(9.3)%
Benchmark		-	0.3%	(2.2)%	(6.7)%	(9.3)%	(9.3)%
Excess		-	(0) bps	(8) bps	0 bps	0 bps	0 bps
Cumulative Value Added (bn)		-	\$ (0.2)	\$ (0.2)	\$ 0.0	\$ 0.0	\$ 0.0
MBS	\$ 23.1	3.3%	1.5%	(0.5)%	0.1%	(3.9)%	(3.9)%
Benchmark		2.7%	0.7%	(0.6)%	(0.0)%	(3.8)%	(3.8)%
Excess		61 bps	80 bps	15 bps	15 bps	(5) bps	(5) bps
Cumulative Value Added (bn)		\$ 1.1	\$ 0.9	\$ 0.2	\$ 0.0	\$ (0.0)	\$ (0.0)
IG Corporates	\$ 29.7	5.0%	3.0%	0.4%	2.2%	(6.0)%	(6.0)%
Benchmark		4.4%	2.5%	0.2%	2.8%	(6.0)%	(6.0)%
Excess		56 bps	43 bps	28 bps	(68) bps	(4) bps	(4) bps
Cumulative Value Added (bn)		\$ 0.3	\$ 0.3	\$ 0.3	\$ (0.2)	\$ (0.0)	\$ (0.0)
High Yield	\$ 21.2	-	-	2.7%	9.8%	0.1%	0.1%
Benchmark		-	-	2.6%	9.6%	0.1%	0.1%
Excess		-	-	9 bps	19 bps	0 bps	0 bps
Cumulative Value Added (bn)		-	-	\$ 0.1	\$ 0.0	\$ 0.0	\$ 0.0
EM Sovereign Bonds	\$ 23.3	-	-	-	-	(2.8)%	(2.8)%
Benchmark		-	-	-	-	(2.9)%	(2.9)%
Excess		-	-	-	-	8 bps	8 bps
Cumulative Value Added (bn)		-	-	-	-	\$ 0.0	\$ 0.0

Exhibit 2.2

All performance reported net of investment expenses and annualized for periods greater than 1-Yr unless noted as cumulative.

Section I. Performance Tables

Item 4.

PERF Private Market Returns As of September 30, 2023

All applicable Private Market asset classes have positive returns for the 5-, 10-, and 20-Year periods

- Private Equity excess performance can fluctuate rapidly over short periods with mark to market changes in its public benchmark
- Real Asset delivered strong relative performance mainly but not exclusively attributed to the outperformance of Infrastructure over Real Estate

	End Value (bn)	20-Yr	10-Yr	5-Yr	1-Yr	FYTD	1-Qtr
Private Equity	\$ 63.5	12.2%	11.6%	11.3%	6.4%	2.2%	2.2%
Benchmark		13.1%	11.9%	9.8%	18.5%	6.6%	6.6%
Excess		(89) bps	(36) bps	149 bps	(1,211) bps	(438) bps	(438) bps
Cumulative Value Added (bn)		\$ (8.9)	\$ (3.4)	\$ 0.1	\$ (7.2)	\$ (2.7)	\$ (2.7)
Private Debt	\$ 10.9	-	-	-	10.7%	3.9%	3.9%
Benchmark		-	-	-	13.1%	3.6%	3.6%
Excess		-	-	-	(249) bps	24 bps	24 bps
Cumulative Value Added (bn)		-	-	-	\$ (0.2)	\$ 0.0	\$ 0.0
Infrastructure	\$ 15.3	-	11.2%	7.9%	5.4%	2.7%	2.7%
Benchmark		-	5.5%	5.5%	(10.7)%	(2.8)%	(2.8)%
Excess		-	565 bps	240 bps	1,608 bps	549 bps	549 bps
Cumulative Value Added (bn)		-	\$ 2.4	\$ 1.3	\$ 2.3	\$ 0.8	\$ 0.8
Real Estate	\$ 53.7	5.2%	7.3%	5.0%	(10.5)%	(2.9)%	(2.9)%
Benchmark		8.6%	7.7%	5.5%	(10.7)%	(2.8)%	(2.8)%
Excess		(348) bps	(40) bps	(47) bps	21 bps	(16) bps	(16) bps
Cumulative Value Added (bn)		\$ (14.6)	\$ (2.6)	\$ (2.1)	\$ (0.0)	\$ (0.1)	\$ (0.1)
Forestland	\$ 0.3	-	0.0%	3.5%	10.6%	(1.2)%	(1.2)%
Benchmark		-	5.9%	5.5%	(10.7)%	(2.8)%	(2.8)%
Excess		-	(589) bps	(204) bps	2,127 bps	152 bps	152 bps
Cumulative Value Added (bn)		-	\$ (1.1)	\$ (0.2)	\$ 0.1	\$ 0.0	\$ 0.0

Exhibit 2.3

All performance reported net of investment expenses and annualized for periods greater than 1-Yr unless noted as cumulative.

Section I. Performance Tables

Item 4.

Affiliate Investment Program Returns As of September 30, 2023

Affiliate returns were in line with respective asset allocations

- Affiliate funds are passively managed strategies, except for Long-Term Care Fund, with realized returns and volatility in line with the assigned asset allocation and benchmarks
- Positive excess returns are largely due to structural tax advantages of public equity and real estate investment trusts (REITs) funds vs their respective benchmarks

Defined Benefit, Health, and OPEB Plans	End Value (mm)	20-Yr	10-Yr	5-Yr	1-Yr	FYTD	1-Qtr
Judges' Retirement Fund	\$ 49.1	1.5%	1.3%	1.9%	4.9%	1.4%	1.4%
Benchmark		1.4%	1.1%	1.7%	4.5%	1.3%	1.3%
Excess		14 bps	14 bps	15 bps	46 bps	7 bps	7 bps
Judges' Retirement System Fund II	\$ 2,235.3	6.2%	5.2%	4.0%	10.8%	(3.8)%	(3.8)%
Benchmark		6.1%	5.0%	3.7%	10.5%	(3.9)%	(3.9)%
Excess		13 bps	26 bps	28 bps	34 bps	5 bps	5 bps
Legislators' Retirement System Fund	\$ 89.6	5.0%	3.4%	2.1%	3.7%	(4.3)%	(4.3)%
Benchmark		4.9%	3.2%	2.0%	3.7%	(4.3)%	(4.3)%
Excess		13 bps	21 bps	12 bps	3 bps	(2) bps	(2) bps
Health Care Fund	\$ 198.5	2.9%	1.2%	0.1%	0.6%	(3.2)%	(3.2)%
Benchmark		2.8%	1.1%	0.1%	0.6%	(3.2)%	(3.2)%
Excess		10 bps	11 bps	(1) bps	(3) bps	1 bps	1 bps
Long-Term Care Fund	\$ 3,907.5	4.6%	2.7%	1.7%	3.2%	(4.0)%	(4.0)%
Benchmark		4.4%	2.6%	1.7%	3.4%	(3.7)%	(3.7)%
Excess		13 bps	9 bps	(1) bps	(20) bps	(25) bps	(25) bps
CERBT Strategy 1 Fund	\$14,813.8	-	5.3%	4.0%	10.3%	(3.9)%	(3.9)%
Benchmark		-	5.0%	3.8%	10.1%	(3.9)%	(3.9)%
Excess		-	32 bps	21 bps	23 bps	4 bps	4 bps
CERBT Strategy 2 Fund	\$ 1,765.2	-	4.2%	2.9%	6.9%	(4.4)%	(4.4)%
Benchmark		-	3.9%	2.8%	6.7%	(4.4)%	(4.4)%
Excess		-	26 bps	13 bps	12 bps	(0) bps	(0) bps
CERBT Strategy 3 Fund	\$ 752.7	-	3.3%	2.2%	4.5%	(4.6)%	(4.6)%
Benchmark		-	3.1%	2.1%	4.4%	(4.6)%	(4.6)%
Excess		-	25 bps	9 bps	5 bps	(1) bps	(1) bps
CEPPT Strategy 1 Fund	\$ 129.5	-	-	-	8.0%	(3.6)%	(3.6)%
Benchmark		-	-	-	7.8%	(3.6)%	(3.6)%
Excess		-	-	-	18 bps	4 bps	4 bps
CEPPT Strategy 2 Fund	\$ 45.5	-	-	-	4.7%	(3.4)%	(3.4)%
Benchmark		-	-	-	4.7%	(3.4)%	(3.4)%
Excess		-	-	-	(4) bps	4 bps	4 bps

E

Section I. Performance Tables

Item 4.

Affiliate Investment Program Returns (cont.) As of September 30, 2023

Target Date Fund returns were in line with respective asset allocations

- Target Date Funds closely tracked their respective benchmarks
- Positive excess returns are largely due to structural tax advantages of public equity and real asset investments vs their respective benchmarks

Supplemental Income Plans (457/SCP Plan)	End Value (mm)	20-Yr	10-Yr	5-Yr	1-Yr	FYTD	1-Qtr
Target Income Fund	\$ 175.7	-	3.0%	3.0%	7.4%	(2.8)%	(2.8)%
Benchmark		-	2.9%	2.8%	7.3%	(2.7)%	(2.7)%
Excess		-	13 bps	14 bps	16 bps	(2) bps	(2) bps
Target 2020 Fund	\$ 154.4	-	3.7%	3.8%	9.4%	(2.8)%	(2.8)%
Benchmark		-	3.6%	3.6%	9.2%	(2.8)%	(2.8)%
Excess		-	13 bps	17 bps	19 bps	(3) bps	(3) bps
Target 2025 Fund	\$ 210.6	-	4.5%	4.4%	11.9%	(3.0)%	(3.0)%
Benchmark		-	4.4%	4.3%	11.6%	(2.9)%	(2.9)%
Excess		-	15 bps	18 bps	23 bps	(4) bps	(4) bps
Target 2030 Fund	\$ 217.4	-	5.1%	5.0%	14.1%	(3.0)%	(3.0)%
Benchmark		-	5.0%	4.9%	13.8%	(3.0)%	(3.0)%
Excess		-	11 bps	13 bps	28 bps	(5) bps	(5) bps
Target 2035 Fund	\$ 150.1	-	5.8%	5.6%	16.9%	(3.2)%	(3.2)%
Benchmark		-	5.7%	5.5%	16.5%	(3.1)%	(3.1)%
Excess		-	12 bps	15 bps	33 bps	(6) bps	(6) bps
Target 2040 Fund	\$ 140.3	-	6.5%	6.2%	19.3%	(3.3)%	(3.3)%
Benchmark		-	6.4%	6.0%	18.9%	(3.2)%	(3.2)%
Excess		-	13 bps	15 bps	37 bps	(7) bps	(7) bps
Target 2045 Fund	\$ 83.9	-	6.8%	6.3%	19.7%	(3.3)%	(3.3)%
Benchmark		-	6.7%	6.1%	19.3%	(3.2)%	(3.2)%
Excess		-	13 bps	15 bps	38 bps	(7) bps	(7) bps
Target 2050 Fund	\$ 52.8	-	6.8%	6.3%	19.7%	(3.3)%	(3.3)%
Benchmark		-	6.7%	6.1%	19.3%	(3.2)%	(3.2)%
Excess		-	13 bps	15 bps	38 bps	(7) bps	(7) bps
Target 2055 Fund	\$ 20.4	-	6.7%	6.3%	19.7%	(3.3)%	(3.3)%
Benchmark		-	6.6%	6.1%	19.3%	(3.2)%	(3.2)%
Excess		-	7 bps	15 bps	39 bps	(7) bps	(7) bps
Target 2060 Fund	\$ 9.8	-	-	-	19.7%	(3.3)%	(3.3)%
Benchmark		-	-	-	19.3%	(3.2)%	(3.2)%
Excess		-	-	-	38 bps	(7) bps	(7) bps
Target 2065 Fund¹	\$ 1.8	-	-	-	-	-	(3.3)%
Benchmark		-	-	-	-	-	(3.2)%
Excess		-	-	-	-	-	(7) bps

Exhibit 2.5

A Page 38 Force reported net of investment expenses and annualized for periods greater than 1-Yr.

Section II. Performance Tables

Item 4.

Affiliate Investment Program Returns (cont.) As of September 30, 2023

Core Fund returns were in line with benchmarks

- Core Funds closely track their respective benchmarks
- Positive excess returns are largely due to structural tax advantages of the Global All Cap ex-US public equity and Real Assets funds vs their respective benchmarks

Supplemental Income Plans (457/SCP Plan) (cont.)	End Value (mm)	20-Yr	10-Yr	5-Yr	1-Yr	FYTD	1-Qtr
SSgA STIF	\$ 120.4	-	1.3%	1.9%	4.9%	1.4%	1.4%
Benchmark		-	1.1%	1.7%	4.5%	1.3%	1.3%
Excess		-	17 bps	17 bps	48 bps	7 bps	7 bps
SIP US Short Term Bond Core	\$ 37.3	-	-	1.2%	2.8%	0.7%	0.7%
Benchmark		-	-	1.2%	2.8%	0.7%	0.7%
Excess		-	-	(4) bps	3 bps	(1) bps	(1) bps
SIP US Bond Core	\$ 51.0	-	-	0.1%	0.6%	(3.2)%	(3.2)%
Benchmark		-	-	0.1%	0.6%	(3.2)%	(3.2)%
Excess		-	-	2 bps	(3) bps	(0) bps	(0) bps
SIP Real Asset Core	\$ 18.2	-	-	5.8%	4.4%	(0.7)%	(0.7)%
Benchmark		-	-	5.7%	4.3%	(0.6)%	(0.6)%
Excess		-	-	7 bps	7 bps	(3) bps	(3) bps
SIP Russell All Cap Core	\$ 651.5	-	-	9.2%	20.5%	(3.2)%	(3.2)%
Benchmark		-	-	9.1%	20.5%	(3.3)%	(3.3)%
Excess		-	-	4 bps	6 bps	3 bps	3 bps
SIP Global All Cap EX-US	\$ 68.8	-	-	2.8%	21.1%	(3.7)%	(3.7)%
Benchmark		-	-	2.6%	20.2%	(3.5)%	(3.5)%
Excess		-	-	26 bps	91 bps	(22) bps	(22) bps

Exhibit 2.6

All performance reported net of investment expenses and annualized for periods greater than 1-Yr.

Section III. Markets and Economy

Item 4.

Macroeconomic Drivers and Outlook

Global growth expectations revised higher; soft-landing largely expected

Higher longer-term interest rates a driver of asset returns

- Over the past quarter, the United States and global economies experienced uneven disinflation amidst mixed economic activity. The global economic expansion continued, led by the US, which exhibited resilience
- Most notable for asset returns has been increased expectations for a soft-landing for the US economy and a delay in expectations for a deterioration in real GDP growth
- Central banks continued to express a firm commitment to tight monetary conditions to ensure inflation tracks back to target. Throughout the quarter, the forward path of interest rates, as priced in financial markets, slowly eroded the size of rate cuts priced in. Correspondingly, a falling probability of an imminent recession resulted in a re-pricing of future expected interest rates higher across all maturities, in particular at longer durations
- Higher interest rates on longer-dated US Treasuries has also been associated with a number of other factors; such as larger US Treasury Department issuance than expected, a ratings downgrade, position adjustments by investors, technical changes to the Bank of Japan's monetary policy impacting global yields, and upward revisions to US national accounts data boosting expectations for the pace of economic growth into the end of 2023
- Higher interest rates were a contributing factor behind weaker equity and income returns over the quarter, while the re-pricing of real estate continued to weigh on returns in this sector. Private debt, which benefits from higher interest rates, performed well over the quarter
- Looking ahead, official institutions continue to expect global economic activity to soften and note the balance of risks remain to the downside. Geopolitical risks remain prominent. The IMF projects the global economy will grow 3.0% in 2023 (compared to 2.9% in April), and 2.9% in 2024

US Treasury 10-year note

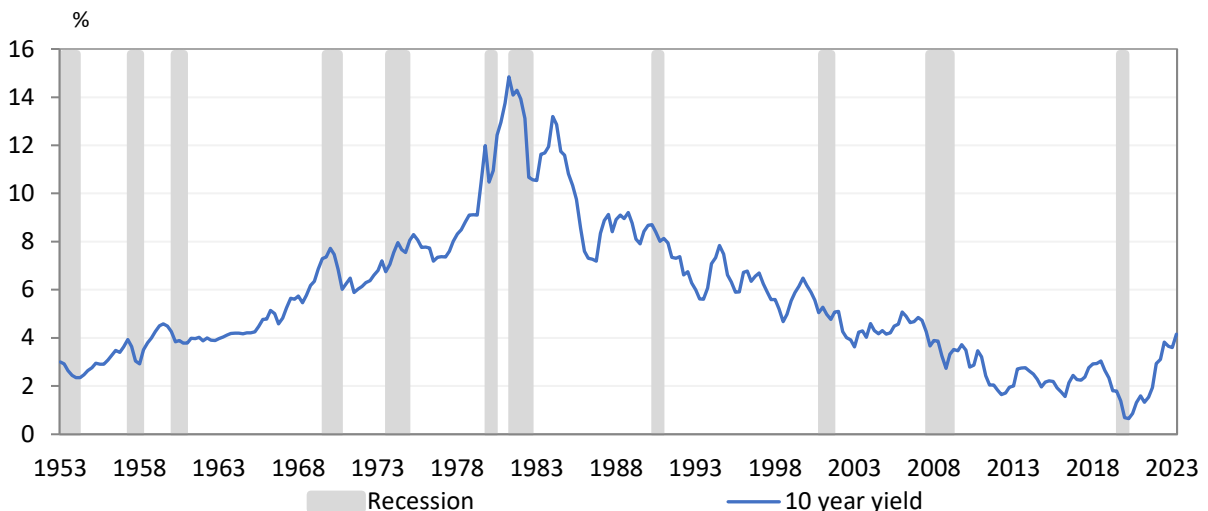


Exhibit 3.1

Source: S&P Analytics. Treasury note is constant maturity yield.

Section IV. PERF Allocation

Item 4.

Strategic Asset Allocation As of September 30, 2023

Allocation remains within policy bands

Interim Targets and Policy Bands

- The Board's General Pension Consultant, in consultation with the Investment Committee and staff, establishes Interim Allocation Targets to reflect reasonable expected pacing to implement the long-term SAA
- Allocation remains in line with policy bands and on pace to longer-term allocation targets

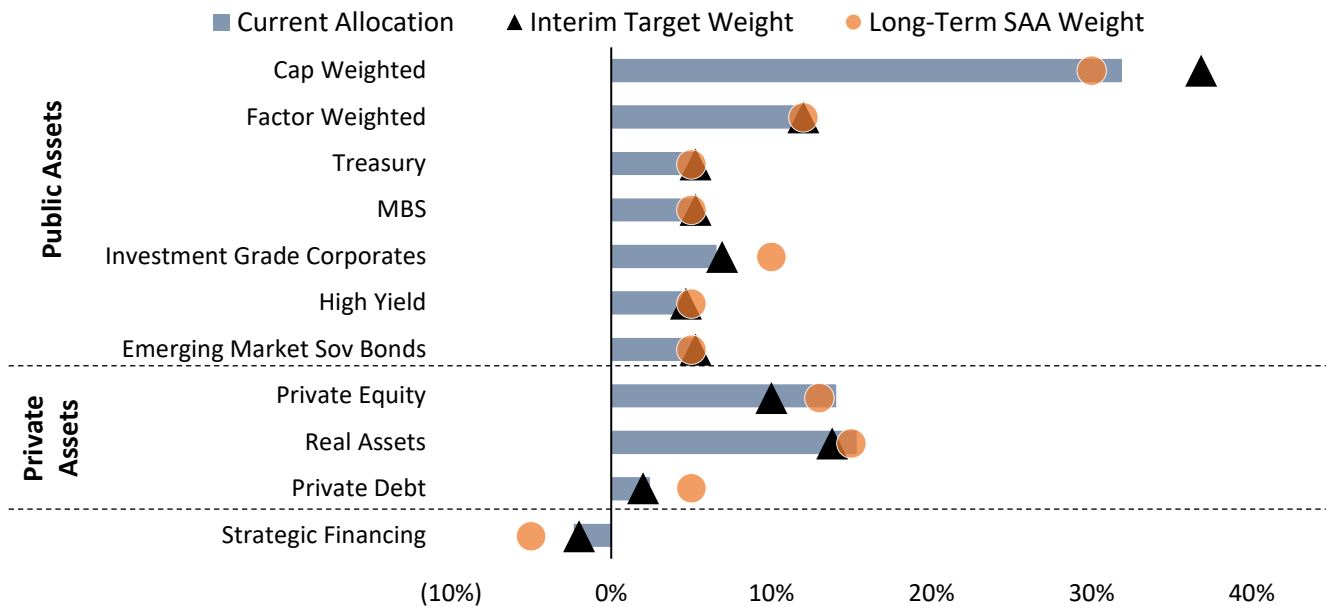
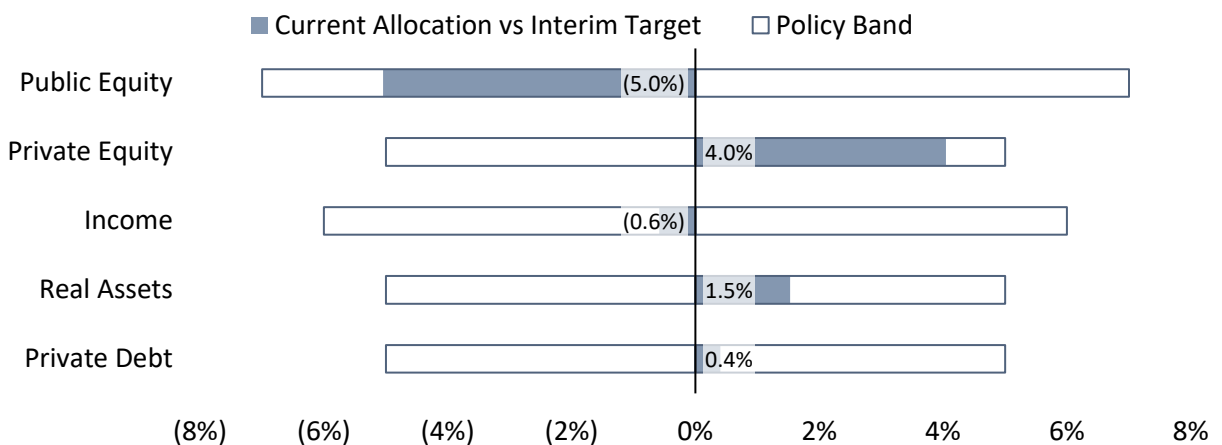


Exhibit 4.1



Section V. PERF Risk Detail

Item 4.

Volatility

Total portfolio volatility has been in line with expectations

Current Levels

- Total Fund Forecasted Volatility for PERF has been relatively stable for the last 12 months . Its fluctuations were driven by trading to implement the new Strategic Asset Allocation adopted in November 2021. The difference between Total Fund and Policy Benchmark volatility is primarily driven by the private equity portfolio versus its public market benchmark
- Actionable Tracking Error is well below the Policy Limit of 100 bps and indicative of opportunities to increase active management. This metric captures deviations from benchmarks for all public market programs, out of benchmark opportunistic investments, and asset allocation. There is no equivalent quantitative metric for private programs due to inherent limitations in modeling, measurement, and benchmarking

	Policy Limit	Current 9/30/2023	Last Qtr 6/30/2023	Last Year 9/30/2022
Total Fund Volatility (%)	-	13.5	13.7	13.7
Policy Benchmark Volatility (%)	-	12.3	12.5	12.5
Tracking Error (%)				
Actionable	< 1.00	0.16	0.14	0.11
Total Fund	-	1.81	1.84	1.62
Allocation	-	0.04	0.01	0.00

Exhibit 5.1

Section V. PERF Risk Detail

Item 4.

Risk Decomposition As of September 30, 2023

Growth oriented asset classes dominate overall risk

% Contribution to Total Portfolio Volatility

- Public and Private Equities contribute approximately 81% of Total Fund Volatility. The remaining asset classes are also either growth-oriented (e.g., Real Assets) or contain growth-oriented components (e.g., High Yield in fixed income)

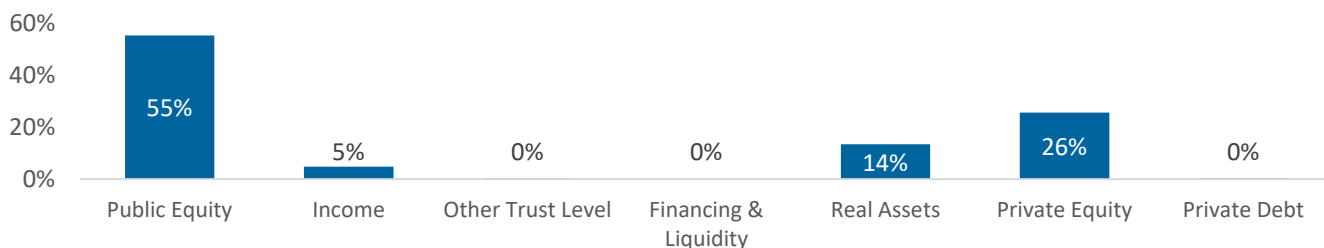


Exhibit 5.2

Asset Class	Market Value (\$ Millions)	Total Forecasted Volatility (%)	% Contribution to Total Volatility	5-Year Realized Volatility (%)
Public Asset Classes				
Public Equity	\$ 197,875	17.4	55.4	17.3
Cap Weighted	\$ 144,050	18.8	43.4	18.4
Factor Weighted	\$ 53,825	14.0	12.0	13.7
Income	\$ 120,692	6.5	4.8	9.5
IG Corp	\$ 29,685	9.6	1.4	12.0
EM Sov Debt	\$ 23,304	7.6	1.9	-
MBS	\$ 23,262	6.2	0.2	5.3
Treasury	\$ 23,261	10.7	-0.3	11.9
High Yield	\$ 21,180	6.4	1.6	9.3
Other Trust Level	\$ 15,619	2.7	0.3	-
LLER	\$ 12,516	2.8	0.3	3.1
Opportunistic	\$ 243	3.2	0.0	-
Total Fund Income	\$ 1,508	2.2	0.0	-
Other	\$ 1,353	4.1	0.0	-
Financing & Liquidity	\$ (26,334)	-	0.0	-
Liquidity	\$ 8,069	0.0	0.0	0.0
Trust Level Financing	\$ (34,402)	-	0.0	-
Private Asset Classes				
Real Assets	\$ 69,426	13.0	13.5	5.6
Private Equity	\$ 63,448	25.7	25.6	10.7
Private Debt	\$ 10,867	4.8	0.4	-
TOTAL PERF	\$ 451,594	13.5	100.0	9.6

Section V. PERF Risk Detail

Item 4.

Risk Decomposition (cont.) As of September 30, 2023

LLER is the largest contributor to actionable tracking error

% Contribution to Actionable Tracking Error

- Total Fund Actionable Tracking Error (TE) is modest at 16 bps vs. a policy limit of 100 bps
- The primary contributors to Actionable TE are the Low Liquidity Enhanced Return (LLER) program and external public equity managers

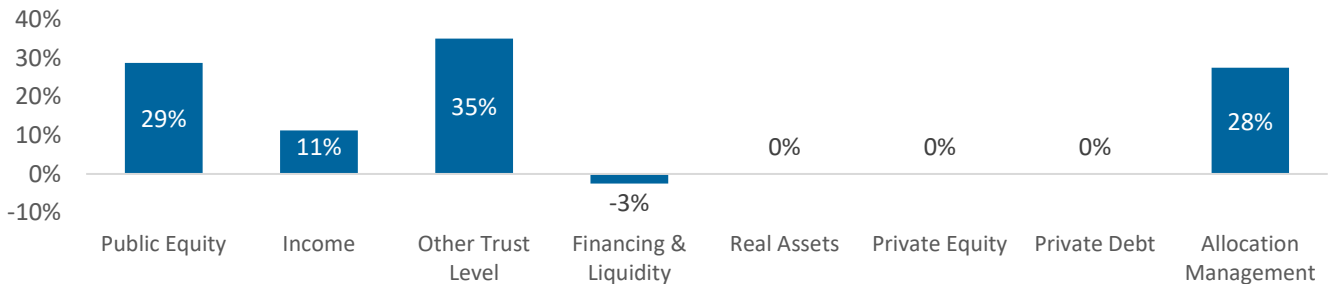


Exhibit 5.4

Asset Class	Tracking Error (bps)	% Contribution to Actionable TE	5-Year Realized TE (bps)
Public Equity	24	29	20
Cap Weighted	33	29	26
Factor Weighted	5	0	10
Income	20	11	28
IG Corp	42	4	44
EM Sov Debt	50	8	-
MBS	25	1	31
Treasury	24	1	86
High Yield	35	-3	30
Other Trust Level	266	35	-
LLER	284	33	300
Opportunistic	322	1	-
Total Fund Income	221	2	-
Other	410	-1	-
Financing & Liquidity	-	-3	-
Liquidity	16	0	-
Trust Level Financing	-	-3	-
Allocation Management	-	28	-
TOTAL PERF Actionable	16	100	20
Real Assets	458		271
Private Equity	963		1,400
Private Debt	162		-
TOTAL PERF	181		164

Appendix 1: PERF Benchmarks

Item 4.

Asset Class

Policy Benchmark

Public Equity – Cap Weighted	CalPERS Custom FTSE All World, All Cap Equity Benchmark
Public Equity – Factor Weighted	CalPERS Custom FTSE Factor Weighted Index
Private Equity	CalPERS Custom FTSE Global Benchmark +150 bps, Quarter Lag
Income - Treasury	Custom Bloomberg Government
Income - MBS	Custom Bloomberg Mortgage
Income - IG Corporates	Custom Bloomberg Corporate ex Sov
Income - High Yield	Custom Bloomberg High Yield
Income - EM Sovereign Bonds	Custom JP Morgan EMBIG Diversified
Real Assets	MSCI/PREA U.S. ACOE Quarterly Property Fund index (Unfrozen), Quarter Lag
Private Debt	S&P/ LSTA U.S. Leveraged Loan 100 Index +125 bps, Quarter Lag
Strategic Leverage	ICE BofA US 3-Month Treasury Bill Index +50 bps

Appendix 2: Definitions

<u>Term</u>	<u>Definition</u>
10 Year U.S. Treasury	The 10-Yr Treasury note (bond) is a debt obligation issued by the United States government with a maturity of 10 years upon initial issuance. A 10-Yr Treasury note pays interest at a fixed rate once every six months and pays the face value to the holder at maturity. The “10-Yr” is viewed as a sign of investor sentiment about the economy. A rising yield for the 10-Yr indicates falling demand for Treasury bonds, which means investors prefer higher-risk, higher-reward investments. A falling yield suggests the opposite.
Annual average percent change (aapc)	The change in a variable between one entire year and the prior entire year. This differs to an annual percent change, which looks at one point in time compared with the same point in time a year earlier.
Actionable Tracking Error	Investment Policy definition of the Total Fund tracking error that excludes the effect of active exposure from private asset classes arising from the modeling challenges and the non-investible nature of their benchmarks.
Active Leverage	The portion of Total Fund leverage that is controlled by staff and used to fund exposures incremental to the Strategic Asset Allocation.
Alpha	The measure of the return of an investment relative to an appropriate benchmark.
Basis Point (BP)	1 basis point is 1/100 of a percent or 0.01%.
Beta	A statistical measure of investment or portfolio return sensitivity to the market where the market is typically defined by a market index. A beta of 1.0 means the investment moves in synch with the market. A beta of 0.5 means the investment moves 50% as much as the market. A beta of 1.5 means the investment moves 150% as much as the market. For example, a portfolio with a beta of 0.8 is expected to have an 8% return when the market returns 10%.
Benchmark	A collection of assets to compare against the portfolio’s assets. These are typically market indices (e.g., SP500 or Bloomberg Barclays Global Aggregate). Benchmarks can be a useful tool to evaluate performance and risk.
Central Banks	The principal monetary authority of a nation, a central bank performs several key functions, including issuing currency and regulating the supply of credit in the economy. The Federal Reserve is the central bank of the United States.

<u>Term</u>	<u>Definition</u>
Consensus Economics	Consensus Economics is a global macroeconomic survey firm that polls more than 700 economists monthly for their forecasts for over 2,000 macroeconomic indicators in 115 countries. The company is headquartered in London, United Kingdom.
Consumer Prices Index (CPI)	An index which measures changes in the prices of a (weighted average) basket of goods and services. This basket is representative of aggregate U.S. consumer spending and is a common reference point for inflation.
Counterparty	The legal entity that holds the other side of a contract or financial transaction.
Economic Activity	Any action that involves producing, distributing, or consuming products or services is an economic activity. Used synonymously with real GDP growth.
Event Risk	Refers to any future potential occurrence that can cause losses for investors or other stakeholders in a company or investment.
Excess Return	The portfolio return minus the portfolio benchmark return. Time-weighted excess return is not affected by the amount of capital invested.
Federal Reserve Open Market Committee (FOMC)	A twelve-member committee made up of the seven members of the Board of Governors; the president of the Federal Reserve Bank of New York; and, on a rotating basis, the presidents of four other Reserve Banks. The FOMC meets eight times a year to set Federal Reserve guidelines regarding the purchase and sale of government securities in the open market and the policy (overnight) interest rate as a means of influencing the volume of bank credit and money in the economy.
Financial Market Pricing	Current price at which an asset or service can be bought or sold. The market price of an asset or service is determined by the forces of supply and demand and, when traded in real time on global financial markets, can be influenced by (unrealized) expectations around the future.
Future Commission Merchant (FCM)	Highly regulated entities that accept orders for exchange traded contracts in Central Counterparty Clearing House (CCPs). Collateral posted at the FCM is mostly used to meet the margin requirements at the CCPs. The collateral in the counterparty section has been provided to the FCM to post at the CCPs on behalf of CalPERS and bridging operational timing and processing gaps in collateral transfer.
High Yield (HY)	Compared to Investment Grade, these bonds have a lower credit rating meaning they have a relatively higher risk of default. Due to their higher probability of default, they pay a higher yield to compensate investors for the additional risk.

<u>Term</u>	<u>Definition</u>
Inflation	A rate of increase in the general price level of goods and services. The general term 'inflation' usually refers to the change in the CPI index over one year.
International Monetary Fund (IMF)	An international organization with 146 members, including the United States. The main functions of the IMF are to lend funds to member nations to finance temporary balance of payments problems, to facilitate the expansion and balanced growth of international trade, and to promote international monetary cooperation among nations. The IMF also creates special drawing rights (SDR's), which provide member nations with a source of additional reserves. Member nations are required to subscribe to a Fund quota, paid mainly in their own currency. The IMF grew out of the Bretton Woods Conference of 1944.
International Swaps and Derivatives Association (ISDA)	A trade organization of market participants that facilitates standardization of contractual agreements to trade over-the-counter derivative contracts. CalPERS enters into ISDA agreements to trade derivatives; for example, FX forwards, total return and interest rate swaps.
Investment Grade (IG)	Bonds with a higher credit rating meaning they have a relatively low risk of default.
Liquidity Coverage Ratio	Metric refers to the proportion of liquid assets to meet short term obligations under a stress scenario (within 30 days). The ratio divides Sources of Liquidity by Uses of Liquidity.
Liquidity (sources of)	Includes: Cash Equivalents, Pension Contributions & Other Inflows, Internal Funding and Liquidity on Demand.
Liquidity (uses of)	Includes: Pension Benefits, Private Asset Funding, Contingent uses and Maturing Derivatives/Repos & Others.
Macroeconomics	A branch of economics that studies how an overall economy (markets, businesses, consumers, and governments) behave. Macroeconomics examines economy-wide phenomena such as inflation, price levels, rate of economic growth, national income, gross domestic product (GDP), and changes in unemployment.
Master Repurchase Agreement (MRA)	The bilateral agreement that governs the collateralized loans of securities. CalPERS uses this contract to enter into forward purchase/repurchase of US Treasuries and Mortgage securities and to post/receive collateral in return (also known as Repo and Reverse Repo).

<u>Term</u>	<u>Definition</u>
Master Securities Forward Transaction Agreement (MFSTA)	The bilateral agreement that CalPERS uses to enter into forward purchase or sale of mortgage bonds and "TBA" instruments.
Net Asset Value (NAV)	The value of an investment fund's assets less its liabilities.
Net Return	<p>Performance net of internal and external investment office management expenses. CalPERS' performance uses a daily Modified-Dietz methodology which is geometrically linked to produce time-weighted returns for longer periods.</p> <p>Daily Rate of Return Formula</p> <ul style="list-style-type: none"> • 6/30/2016 & Prior: Dollar Value Added / (Beginning Market Value + Net Cash Flows) • 7/1/2016 to Present: Dollar Value Added / Beginning Market Value • Dollar Value Added = Gains/losses due to price appreciation and income <p>Daily returns are geometrically linked to produce longer period returns.</p>
Unfunded Commitments	A legally binding commitment to a private asset investment fund/vehicle for which the capital has not yet been drawn.
Oil (Brent)	A crude oil blend commonly referred to as Brent Blend, London Brent, or Brent petroleum. It is the main global benchmark for oil prices.
Oil (WTI)	West Texas Intermediate is also crude oil blend. It serves as the main US benchmark for oil prices.
Over the Counter (OTC)	A decentralized market where participants trade stocks, bonds, currencies, or derivatives without a centralized exchange or broker.
Public Employee's Retirement Fund (PERF)	An investment fund created under California state statute and exclusively controlled by the CalPERS Board. The fund is managed with the expressed purpose of paying retirement benefits to participating members.
Policy Rate	The policy interest rate is that at which the central bank will pay or charge commercial banks for their deposits or loans. This rate affects the interest rate that commercial banks apply with their customers, both borrowers and depositors, and more generally, impacts on the general price (rate) of credit in the economy.

<u>Term</u>	<u>Definition</u>
Portfolio Market Value	<p>The sum of the underlying investment values +/- any open receivables or payables (uninvested assets), consistent with the Net Asset Value or Total Net Assets reported in accounting.</p> <ul style="list-style-type: none"> • Public Asset Market Values are calculated as units held x price per unit + accrued income. • Private Asset Market Values represent an opinion of value as of a certain date as stated by either the investment advisor or independent appraiser. Market value differs from amount funded or net investment in that the value includes unrealized gains or losses during the holding period.
Real Gross Domestic Product (GDP)	Measures the total economic output of a country over a specified period (often a year) adjusted for changes in price. The total economic output refers to the volume of all goods and services produced by an economy. It is often referred to as constant-price GDP or constant dollar GDP.
SLA/Sec Lending	Refers to the Securities Lending Agreement ("SLA") under which CalPERS lends securities and receives either cash or other securities as collateral.
Supply-Chain	A network of individuals and companies who are involved in creating a product and delivering it to the consumer. Links on the chain begin with the producers of the raw materials and end when the finished product is delivered to the end user.
Supplemental Income Plans (SIP)	Refers to the combined program for the Public Employees' Deferred Compensation Fund and the Supplemental Contributions Program.
Tracking Error	Standard deviation of the differential return between the portfolio and an equal investment in the benchmark.
Uncertainty	The range of possible values or paths. These are unknown.
Value Added	The incremental gain or loss in dollars resulting from portfolio implementation, active management, and imperfectly investible benchmarks. Over shorter time horizons, the benchmark component can create significant variability in outcomes. Unlike a time-weighted excess return which does not account for the size of the investment, value added will vary with the amount of capital invested. Also referred to as "Dollar Value Added".
Volatility	A measure of the distribution of portfolio returns (or a given security). It is typically defined as the statistical standard deviation of returns, annualized.

<u>Term</u>	<u>Definition</u>
Wage Growth	Wages are the compensation paid to employees for the work or services they perform over a specified period. In the US it is often described as average hourly earnings. Wage growth typically refers to the annual change in wages.
Yield Curve	A yield curve is a line that plots yields (interest rates) of bonds having equal credit quality but differing maturity dates. The slope of the yield curve gives an idea of future interest rate changes and economic activity. There are three main yield curve shapes: normal (upward sloping curve), inverted (downward sloping curve), and flat.



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/11/2023

ITEM NO: 5

Item 5.

DATE: December 6, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the Period Ending September 30, 2023 and Performance as of October 31, 2023

RECOMMENDATION:

Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy 2 Market Value Summary Report for the period ending September 30, 2023 and performance as of October 31, 2023.

BACKGROUND:

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

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

DISCUSSION:

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

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 2

SUBJECT: CEPPT Update

DATE: December 6, 2023

DISCUSSION (continued):

Effective Fiscal Year (FY) 2015/16, Council determined that if sufficient General Fund year-end savings are available and targeted reserve levels for the Catastrophic Reserve and Budget Stabilization Reserve have been met, upon the final close of the fiscal year, a minimum of \$300,000 annually shall be deposited into the Pension/OPEB Reserve Fund. In addition, in 2018 the Council updated the General Fund Reserve Policy to provide for additional discretionary payments (ADPs) of \$390,000 per year to address the unfunded pension liability. Under the updated Policy, a 20-year amortization equivalence will be achieved.

The ending CEPPT 115 Trust account balance as of September 30, 2023, was \$1,351,903 (Attachment 1). As of October 31, 2023, the CEPPT Strategy 2 fund had a net return of negative 2.16% for the month and negative 5.54% for the Fiscal Year to Date (FYTD) (Attachment 2). Staff anticipates transferring an additional \$690,000 to the CEPPT Trust during FY 2023/24.

Per the March 2023 Pension/OPEB Oversight Committee action, the Town leaves the funds in the CEPPT Trust and continuously monitors and evaluates if an Additional Discretionary Payment should be made directly to CalPERS. This topic is tentatively scheduled for the January 2024 Finance Commission meeting with subsequent consideration by the Oversight Committee in early 2024.

The Town Pension and OPEB Trusts Oversight Committee has received this report at its December 5, 2023 regular meeting.

Attachments:

1. CEPPT Market Value Summary Report as of September 30, 2023
2. CEPPT Strategy 2 Performance October 31, 2023

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$1,400,162.56	\$1,400,162.56
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(47,456.90)	(47,456.90)
Administrative Expenses	(529.66)	(529.66)
Investment Expense	(273.34)	(273.34)
Other	0.00	0.00
Ending Balance	\$1,351,902.66	\$1,351,902.66
FY End Contribution Accrual	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$1,351,902.66	\$1,351,902.66

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	138,648.200	138,648.200
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	138,648.200	138,648.200
Period Beginning Unit Value	10.098671	10.098671
Period Ending Unit Value	9.750596	9.750596

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

Statement of Transaction Detail for the Quarter Ending 09/30/2023

Town of Los Gatos

Entity #: SKHE-4589482285-501P



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



October 31, 2023

Objective

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

Strategy

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

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

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

Composition

Asset Class Allocations and Benchmarks

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

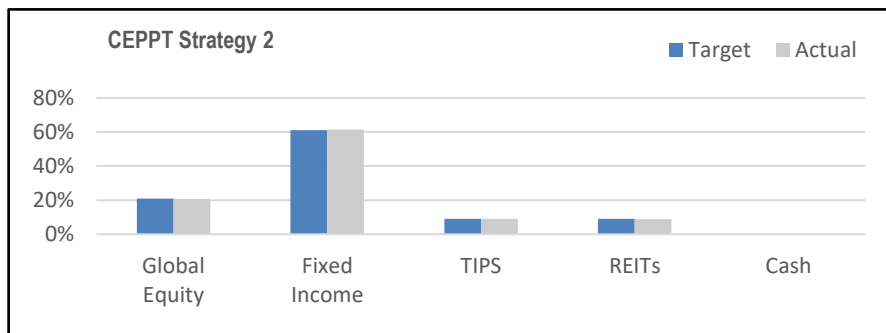
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	21%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	61%	± 5%	Bloomberg US Aggregate Bond Index
Treasury Inflation-Protected Securities ("TIPS")	9%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")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

Portfolio Benchmark

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

Target vs. Actual Asset Class Allocations

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



Assets Under Management

As of the specified reporting month-end:

CEPPT Strategy 2	Annual Expense Ratio
\$44,233,100	0.25%

CEPPT Strategy 2 Performance as of October 31, 2023

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (January 1, 2020)
Gross Return ^{1,3}	-2.14%	-6.51%	-5.46%	1.62%	-2.68%	-	-	-1.15%
Net Return ^{2,3}	-2.16%	-6.57%	-5.54%	1.38%	-2.90%	-	-	-1.37%
Benchmark Return	-2.16%	-6.57%	-5.53%	1.56%	-2.79%	-	-	-1.26%
Standard Deviation ⁴	-	-	-	-	8.32%	-	-	8.05%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

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

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

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

CEPPT Strategy 2



October 31, 2023

General Information

Information Accessibility

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

Portfolio Manager Information

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

Custodian and Record Keeper

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

Expenses

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

What Employers Own

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

Price

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

Principal Risks of the Portfolio

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

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

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

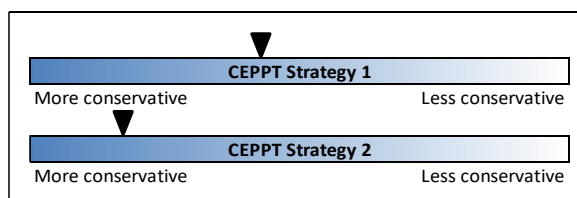
Fund Performance

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

CEPPT Strategy Risk Levels

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

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





TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/05/2023

ITEM NO: 6

Item 6.

DATE: December 6, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending September 30, 2023 and the Performance Report as of October 31, 2023.

RECOMMENDATION:

Receive California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending September 30, 2023 and the Performance Report as of October 31, 2023.

BACKGROUND:

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

DISCUSSION:

The ending OPEB 115 Trust account balance as of September 30, 2023, was \$23,366,797 compared to \$24,318,330 as of June 30, 2023 (Attachment 1). As of July 31, 2023, the CERBT Strategy 1 fund had a net return of negative 3.38% for the month and negative 7.16% as of October 31, 2023 (Attachment 2).

The Town Pension and OPEB Trusts Oversight Committee has received this report at its December 5, 2023 regular meeting.

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 2
SUBJECT: CERBT
DATE: December 6, 2023

Item 6.

Attachments:

1. OPEB 115 Trust Market Value Report as of September 30, 2023
2. CERBT Performance Report October 31, 2023

Market Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Balance	\$24,318,329.86	\$24,318,329.86
Contribution	0.00	0.00
Disbursement	0.00	0.00
Transfer In	0.00	0.00
Transfer Out	0.00	0.00
Investment Earnings	(946,348.02)	(946,348.02)
Administrative Expenses	(2,995.20)	(2,995.20)
Investment Expense	(2,190.01)	(2,190.01)
Other	0.00	0.00
Ending Balance	\$23,366,796.63	\$23,366,796.63
FY End Contrib per GASB 74 Para 22	0.00	0.00
FY End Disbursement Accrual	0.00	0.00
Grand Total	\$23,366,796.63	\$23,366,796.63

Unit Value Summary:

	QTD Current Period	Fiscal Year to Date
Beginning Units	1,188,552.988	1,188,552.988
Unit Purchases from Contributions	0.000	0.000
Unit Sales for Withdrawals	0.000	0.000
Unit Transfer In	0.000	0.000
Unit Transfer Out	0.000	0.000
Ending Units	1,188,552.988	1,188,552.988
Period Beginning Unit Value	20.460451	20.460451
Period Ending Unit Value	19.659870	19.659870

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

Statement of Transaction Detail for the Quarter Ending 09/30/2023

Town of Los Gatos

Entity #: SKB0-4589482285



Item 6.

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



October 31, 2023

Objective

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

Strategy

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

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

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

Assets Under Management

As of the specified reporting month-end:

CERBT Strategy 1	Annual Operating Ratio
\$14,356,407,949	0.10%

Composition

Asset Class Allocations and Benchmarks

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

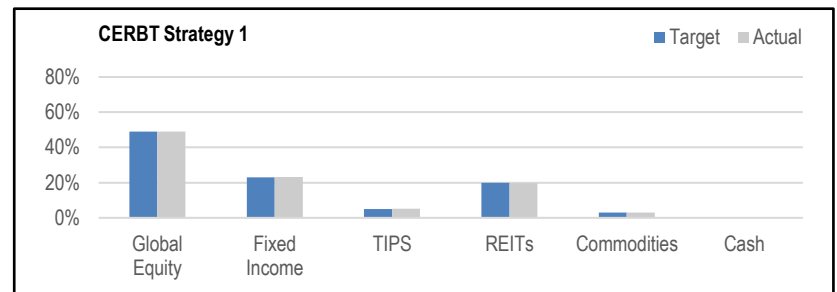
Asset Class	Target Allocation	Target Range	Benchmark
Global Equity	49%	± 5%	MSCI All Country World Index IMI (Net)
Fixed Income	23%	± 5%	Bloomberg Long Liability Index
Treasury Inflation-Protected Securities ("TIPS")	5%	± 3%	Bloomberg US TIPS Index, Series L
Real Estate Investment Trusts ("REITs")	20%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

Portfolio Benchmark

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

Target vs. Actual Asset Class Allocations

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



CERBT Strategy 1 Performance as of October 31, 2023

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	10 Years*	Since Inception* (June 1, 2007)
Gross Return ^{1,3}	-3.38%	-9.69%	-7.14%	3.18%	1.83%	4.50%	4.65%	4.38%
Net Return ^{2,3}	-3.38%	-9.71%	-7.16%	3.09%	1.75%	4.42%	4.55%	4.30%
Benchmark Returns	-3.38%	-9.74%	-7.19%	2.93%	1.63%	4.26%	4.30%	3.99%
Standard Deviation ⁴	-	-	-	-	14.09%	13.79%	10.93%	12.98%

* Returns for periods greater than one year are annualized.

¹ Gross returns are net of SSGA operating expenses.

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

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

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

CERBT Strategy 1

October 31, 2023



General Information

Information Accessibility

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

Portfolio Manager Information

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

Custodian and Record Keeper

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

Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the expenses, the greater the reduction of investment return. Currently, CERBT expenses are 0.10% which consist of administrative expenses borne by CalPERS to administer and oversee the Trust assets, investment management and administrative fees paid to SSGA to manage all asset classes, and recordkeeping fees paid to Northeast Retirement Services to administer individual employer accounts. The expenses described herein are reflected in the net asset value per unit. The expense ratio is subject to change at any time and without prior notification due to factors such as changes to average fund assets or market conditions. CalPERS reviews the operating expenses annually and changes may be made as appropriate. Even if the portfolio loses money during a period, the expenses will still be charged.

What Employers Own

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

Price

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

Principal Risks of the Portfolio

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

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

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

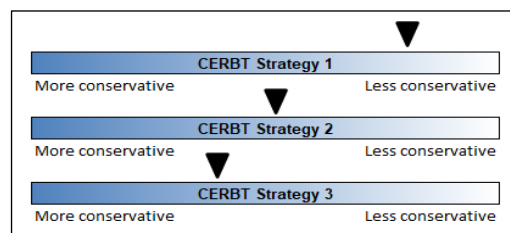
Fund Performance

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

CERBT Strategy Risk Levels

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

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



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



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/11/2023

ITEM NO: 7

Item 7.

DATE: December 6, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive a Report of the CalPERS 2023 Annual Review of Funding Levels and Risks

RECOMMENDATION:

Receive a report of the CalPERS 2023 annual review of funding levels and risks.

BACKGROUND:

Staff routinely monitors items presented to the CalPERS Investment Committee and Board of Administration. While the Town has no fiduciary control over the investment decisions determined by CalPERS, it is prudent as a fiduciary to understand the potential risks and consequences inherent in actions taken by CalPERS. Attachment 1 contains the CalPERS 2023 Annual Review of Funding Levels and Risks. This report focuses on:

- Reporting the current funded status of the system,
- Reviewing prior and expected future funding progress,
- Identifying and quantifying investment risks,
- Examining other system risks, such as high inflation and mortality, and
- Discussing risk mitigating activities for the system and employers.

This report is intended to assist the CalPERS Board of Administration, participating employers, and other stakeholders in assessing the soundness and sustainability of the Public Employees' Retirement System for ongoing pension plans. The results presented in this report are based on the June 30, 2022 annual valuations, which have been projected forward to June 30, 2023 based on investment performance of 6.1% for the year ending June 30, 2023. Staff routinely utilizes information from CalPERS during development of the Proposed Operating Budget, Five-Year Forecast, and other Town financial analysis.

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 4

SUBJECT: CalPERS 2023 Review of Funding Levels and Risks

DATE: December 6, 2023

DISCUSSION:

Following are items of note identified in the report regarding CalPERS as a whole and its funding level of risk:

With the slightly lower-than-expected investment returns for fiscal year (FY) 2022-23, the funded status of the system has increased modestly from 70.9% as of June 30, 2022 to an estimated 72% as of June 30, 2023 as a result of employers making their unfunded accrued liability (UAL) payments. Funded ratios vary somewhat among the different plans, with the plans for miscellaneous members generally having higher funded ratios than plans for safety members.

Many CalPERS plans are less than 100% funded as of June 30, 2023. CalPERS believes this is not a significant cause for concern provided employers continue to make the actuarially determined required contributions. The report states there is no specific funded status that indicates a retirement plan and its members are in jeopardy, but says plans that fall below 50% would likely have short-term required contributions that would strain the employer's budget.

All actuarial assumptions and methods are based on the latest Asset Liability Management (ALM) process and associated Experience Study. These include a discount rate of 6.8%, an inflation assumption of 2.3%, and a payroll growth assumption to 2.8%.

CalPERS cautions that recent and current increases in the Consumer Price Index (CPI) are expected to have an impact on the pension liabilities in future actuarial valuation reports for both retirees (due to cost of living increases) and the active members (due to future salary increases). While there is no immediate concern regarding the system's ability to pay required benefits, the possibility of unfavorable events in the near future, such as continued high inflation and the possibility of an economic recession, lead to concerns that required employer contributions could rise to levels that would be challenging for employers.

CalPERS concludes the report with the following observation:

"Over the last few years various external factors have had material impacts on the experience of the retirement system. These include extreme investment experience (both favorable and unfavorable), a global pandemic and historically high levels of inflation. In addition, over the last 10-years the system has had to recognize investment losses and significantly lower levels of future expected investment return due primarily to lower capital market assumptions across most asset classes. Also, during this 10-year period however, employer costs were somewhat reduced due to the impact of PEPR.

SUBJECT: CalPERS 2023 Review of Funding Levels and Risks

DATE: December 6, 2023

DISCUSSION (continued):

“The combined impact of the above factors has resulted in increased required employer contributions and only modest improvements in the funded status of the system over the last 10-years. However, necessary changes to actuarial assumptions over the last decade have positioned the system to see greater improvements in funded status over the next 10-years.”

Employer contributions are currently at relatively high levels due to large amounts of UAL and are projected to increase somewhat over the next 5 years. In addition, uncertainty within the economy suggests a near-term economic recession is a possibility. The ability of employers to continue making required contributions to the system is the area of greatest concern. “ Los Gatos budgets for its payments and is expected to make all required contributions if not also Additional Discretionary Payments (ADP).

Various strategies and actions by CalPERS, its Board of Administration, and its employers have improved the sustainability of the system and mitigated certain risks. Among these identified by CalPERS are:

- The adoption of the current amortization policies that mitigate the risk of the system dropping to dangerously low funding levels.
- The increased level of additional contributions made by CalPERS agencies.
- The use of a separate 115 trust by many CalPERS agencies for minimizing the risk of required contribution spikes and volatility
- The continued improvements in investment policies which maintains favorable investment return expectations and associated volatility.
- Improved modeling tools that allow CalPERS and its participating employers to forecast future required contributions and funded status under a variety of possible future scenarios.

In addition to the actions listed above, CalPERS intends to give a high level of focus to the following:

- Continue the focus on the acceptable level of investment risk versus the desire for higher investment returns.
- Monitor the effectiveness of the current investment policy to ensure desired returns relative to the chosen level of risk.
- Continue the focus on educating participating employers on the risks facing the system and providing tools that enhance their ability to manage these risks.
- Conduct stakeholder outreach regarding employers' ability to make required contributions.

PAGE 4 OF 4

SUBJECT: CalPERS 2023 Review of Funding Levels and Risks

DATE: December 6, 2023

DISCUSSION (continued):

According to CalPERS, it and its participating employers have taken many positive steps to manage the risks of the system. Increased focus on these risks and opportunities to minimize and manage them, as discussed in the report, are important going forward.

The Town Pension and OPEB Trusts Oversight Committee received this report at its December 5, 2023 regular meeting.

Attachment:

1. CalPERS 2023 Annual Review of Funding Levels and Risks

California Public Employees' Retirement System

2023 Annual Review of Funding Levels and Risks

November 2023



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Introduction

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

The results presented in this report are based on the June 30, 2022 annual valuations, which have been projected forward to June 30, 2023 based on investment performance of 6.1% for the year ending June 30, 2023. Unless stated otherwise, current and projected results in the report are based on a long-term discount rate of 6.80% and the demographic assumptions reflecting the 2021 Experience Study.

The actual results based on the June 30, 2022 valuations are summarized in Appendix A.

This report focuses on:

- Reporting the current funded status of the system
- Reviewing prior and expected future funding progress.
- Identifying and quantifying investment risks
- Examining other system risks, such as high inflation and mortality
- Discussing risk mitigating activities for the system and employers

The report is organized into the following sections:

- Funding Levels: this section discusses the relationship between assets and liabilities for the Public Employees' Retirement System (PERS) and various sub-groups of the system. Current, historic and potential future funding levels are shown.
- Identifying and Quantifying Investment Risks: this section outlines the impact future investment performance could have on funding and contribution levels. This is of particular importance because investment performance has a large impact on pension funding and costs.
- Key Non-Investment Risks: this section addresses the potential impact of key non-investment risks (e.g., mortality, inflation, etc.) on the pension system. The topics in this session may change over time to reflect current and expected trends.
- Managing Risks: this section describes areas where risks may be managed. These include assumptions (e.g., expected investment return and inflation), amortization of costs as well as employers making additional payments to fund their pension plans.

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

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

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

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

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

Executive Summary

With the slightly lower-than-expected investment returns for fiscal year (FY) 2022-23, the funded status of the system has increased modestly from 70.9% as of June 30, 2022 to an estimated 72% as of June 30, 2023 as a result of employers making their unfunded accrued liability (UAL) payments. Funded ratios vary somewhat among the different plans, with the plans for miscellaneous members generally having higher funded ratios than plans for safety members.

The recent decrease in funded status over the past couple of years has increased the risk that plans will fall to low funding levels. However, other factors including Additional Discretionary Payments (ADPs) have reduced this risk. Employer contribution levels are increasing primarily in response to the investment loss for fiscal year 2021-22. With the added economic stress due to inflation, and the possibility of a near-term recession, the ability of employers to continue making required contributions is an area of concern for the system and its members. However, with few exceptions, employers are currently up to date with their contribution requirements, and many are considering ADPs to improve their funded status and lower their overall costs.

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

All actuarial assumptions and methods are based on the latest Asset Liability Management (ALM) process and associated Experience Study. These include a discount rate of 6.8%, an inflation assumption to 2.3% and a payroll growth assumption to 2.8%.

Recent and current increases in the Consumer Price Index (CPI) are expected to have an impact on the pension liabilities in future actuarial valuation reports for both retirees (due to cost of living increases) and the active members (due to future salary increases).

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

Funding Levels

CalPERS is a conglomeration of multiple plans and several risk sharing pools. While it is informative to review actuarial results of the system as a whole, it is also important to understand that individual “plans” within CalPERS have unique funded status and required contribution results. In general, the assets of one plan are not shared with any other plan.

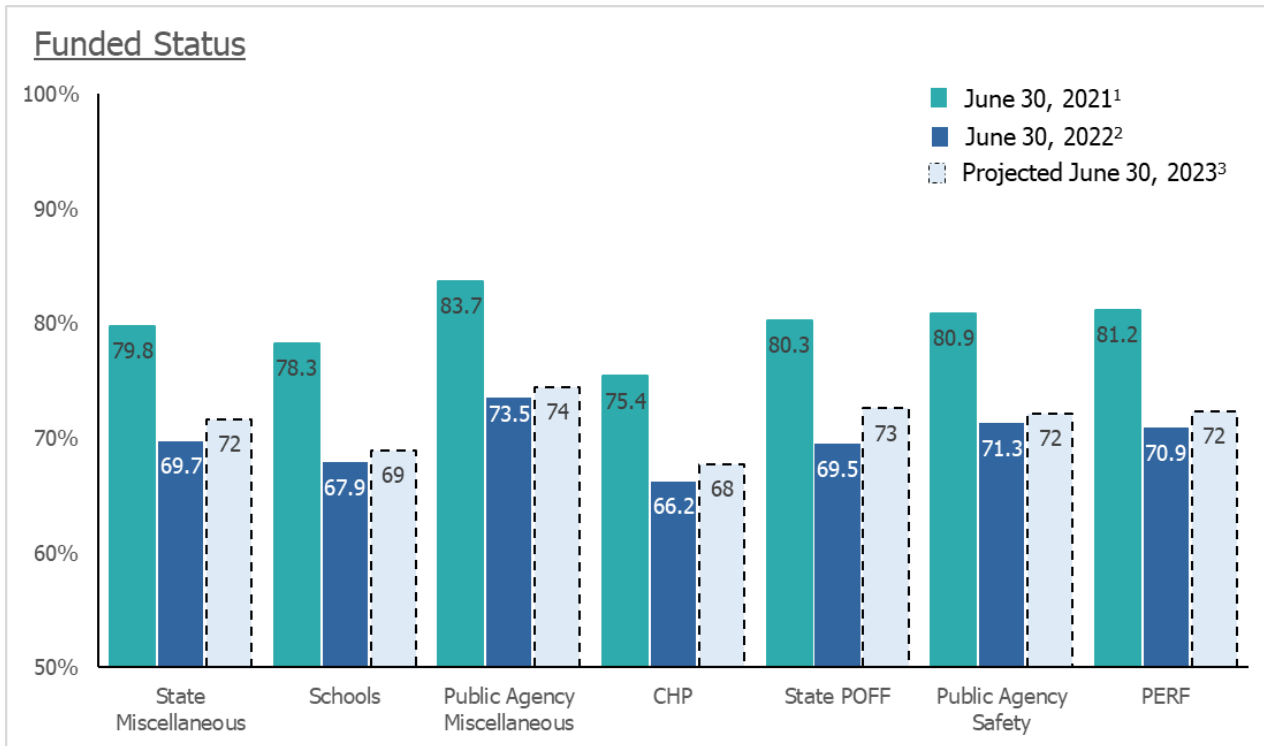
In this section we will discuss current valuation results for the system as a whole, as well as results for various member sub-groups of the system. In addition, a summary and analysis of funding results over the last 10-years as well as results expected during the next 10-years is also provided. This information helps illustrate the effectiveness of the current funding methods as well as the impact of unexpected experience on the funding levels of the system.

More detailed funding results can be found in the appendices as well as on the CalPERS website at <https://www.calpers.ca.gov/page/employers/actuarial-resources/summary-valuation-results-overview>.

Current Funding Levels

The overall level of funding of the system has been quite volatile over the last 2-3 years. Strong investment performance during the fiscal year ending June 30, 2021 significantly improved asset values. However, the following fiscal year ending June 30, 2022 saw decreases in asset values due to the FY 2021-22 poor investment return. The investment performance for the year ending June 30, 2023 was just under the expected return of 6.8%. The preliminary return was communicated as 5.8% for the previous fiscal year. However, the return reflecting the 4th quarter results for private and real assets was later determined to be 6.1%.

The chart below shows the funding levels of the various components of the Public Employees’ Retirement Fund (PERF) as of June 30, 2021, June 30, 2022, and estimated results as of June 30, 2023. Estimates as of June 30, 2023 were based on asset values as of June 30, 2023 and liabilities rolled forward from the most recent valuation date of June 30, 2022 to June 30, 2023.



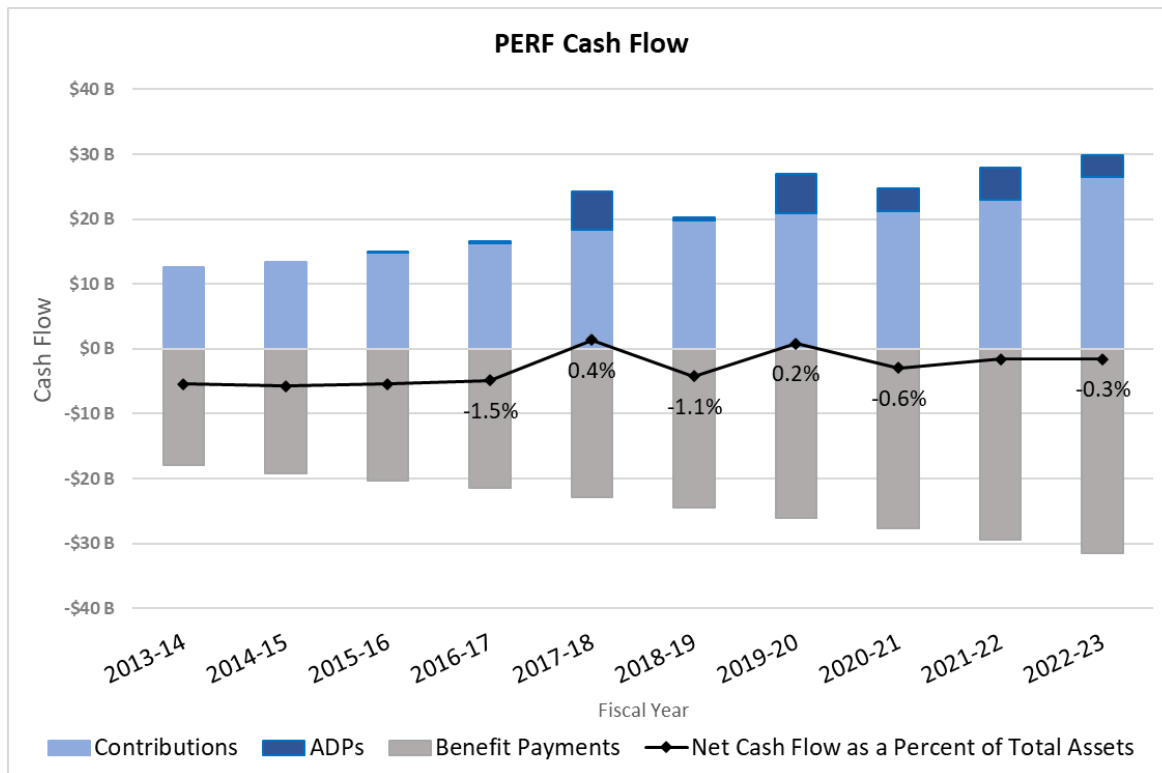
¹June 30, 2023 projected funded status based on an investment return of 6.1% for FY 2022-23.

The chart above shows that the funded status decreased significantly between June 30, 2021 and June 30, 2022. This was due to an investment return during that year of -7.5%. Based on the results of the funding valuations as of June 30, 2022, the overall funded ratio of the PERF was about 71% and the estimated PERF funded ratio as of June 30, 2023 is 72%.

10-Year Funding History

A review of funded status and cash flow results during the prior ten years provides valuable information regarding the operation of the system. The charts below provide a 10-year history of results for the system as a whole. As mentioned previously, all results shown are the aggregation of individual plan results.

The chart below provides a 10-year history of contributions including ADPs into the system and benefit payments out of the system.



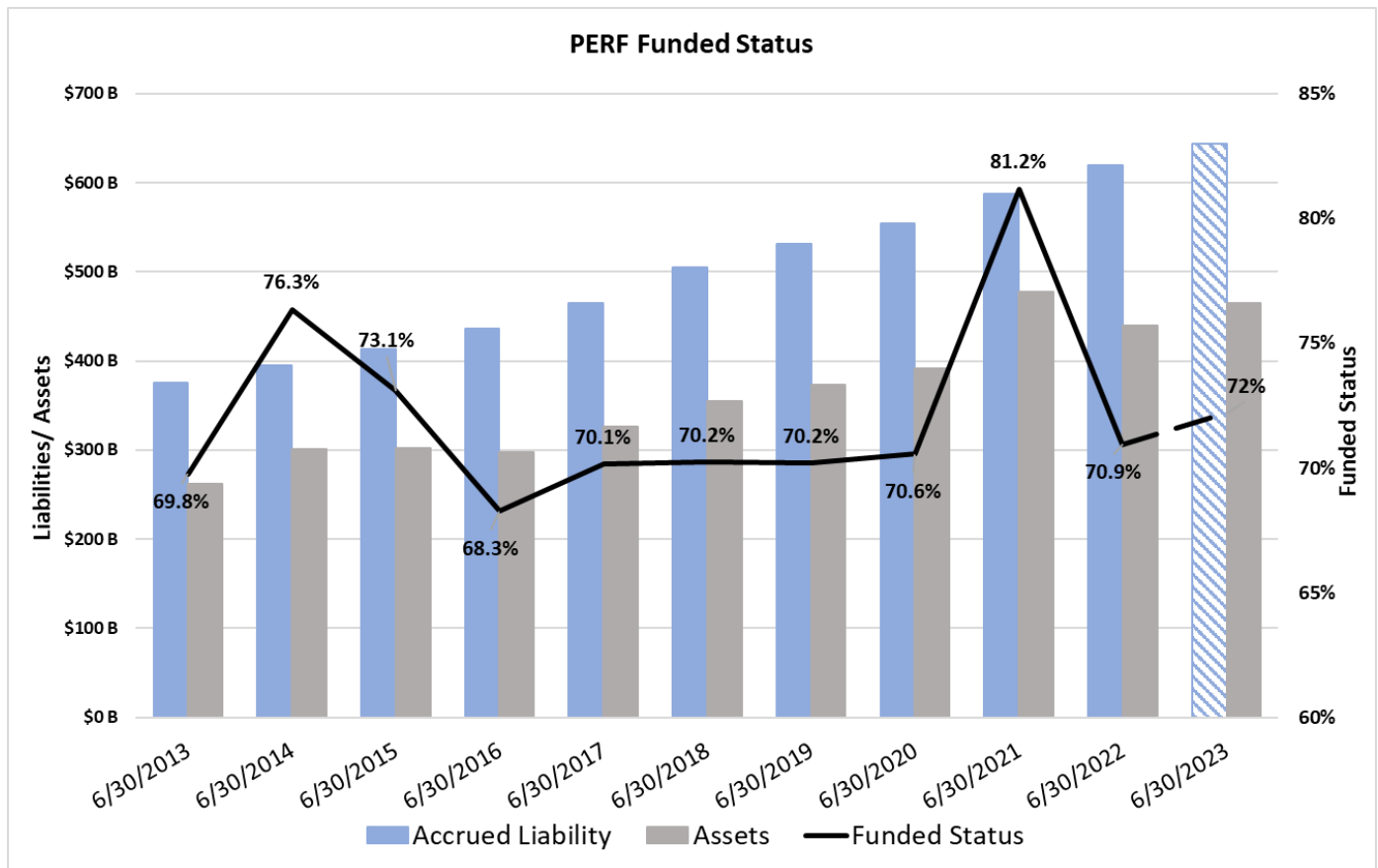
As shown in the chart above, benefit payments consistently increased during this period. This is expected to continue into the future. However, as more PEPRAs members retire, these increases will be somewhat muted.

Actual contributions made over this period also generally increased from one year to the next. While contribution dollars are expected to increase somewhat each year due to payroll increases, contributions during this period also increased due to investment losses and changes to actuarial assumptions. Significant ADPs were made in some years as shown above in the dark blue boxes. These ADPs also increased the net cash flow in those years. The two years during which net cash was positive were the result of ADPs.

In a prefunded public retirement system, net cash flow generally starts out positive in the early years of the system but becomes negative at some point as the system matures. This is an expected outcome of

prefunding and generally not a result to attempt to correct. However, projected levels of negative cash flow should be understood so that invested assets can be managed to maintain the necessary level of liquidity to pay benefits without harming the overall performance of the fund.

The chart below shows that the funded status of the system has varied from year to year, increasing in some years and decreasing in others. Year-to-year changes are primarily the result of investment gains/losses. However, other factors include changes to actuarial assumptions, non-investment gains/losses, and payments made by employers to pay-down existing UAL. While employers have required minimum payments toward UAL as set by the CalPERS amortization policy, ADPs can also be made.



The ending funded status of 72% as of June 30, 2023 is not considerably higher than the funded status at the beginning of the period of 69.8%. Factors that can result in slower improvement in the funded status include, unfavorable investment or non-investment experience, lack of sufficient contributions to pay down UAL, or changes in actuarial assumptions. During this period, investment and non-investment experience was reasonably close to expectations (on average), and employers made all actuarially determined contributions including required payments toward UAL.

The factor having the greatest impact on the funded during this period was changes to actuarial assumptions, especially the lowering of the discount rate from 7.5% to 6.8%. In addition, even though the average investment return for the prior 10-years was 7.1%, there was a larger amount of investment losses than investment gains during this period. This is primarily due to two factors, 1) the expected return at the beginning of this period was 7.5% and was gradually reduced to the current 6.8%, and 2) the timing of individual gains and losses, for example the largest of the investment losses occurred late in this period on a relatively high amount of assets. So, while it was not the predominant factor, investment losses over this 10-year period also led to overall reductions in funded status and increases in employer contribution rates.

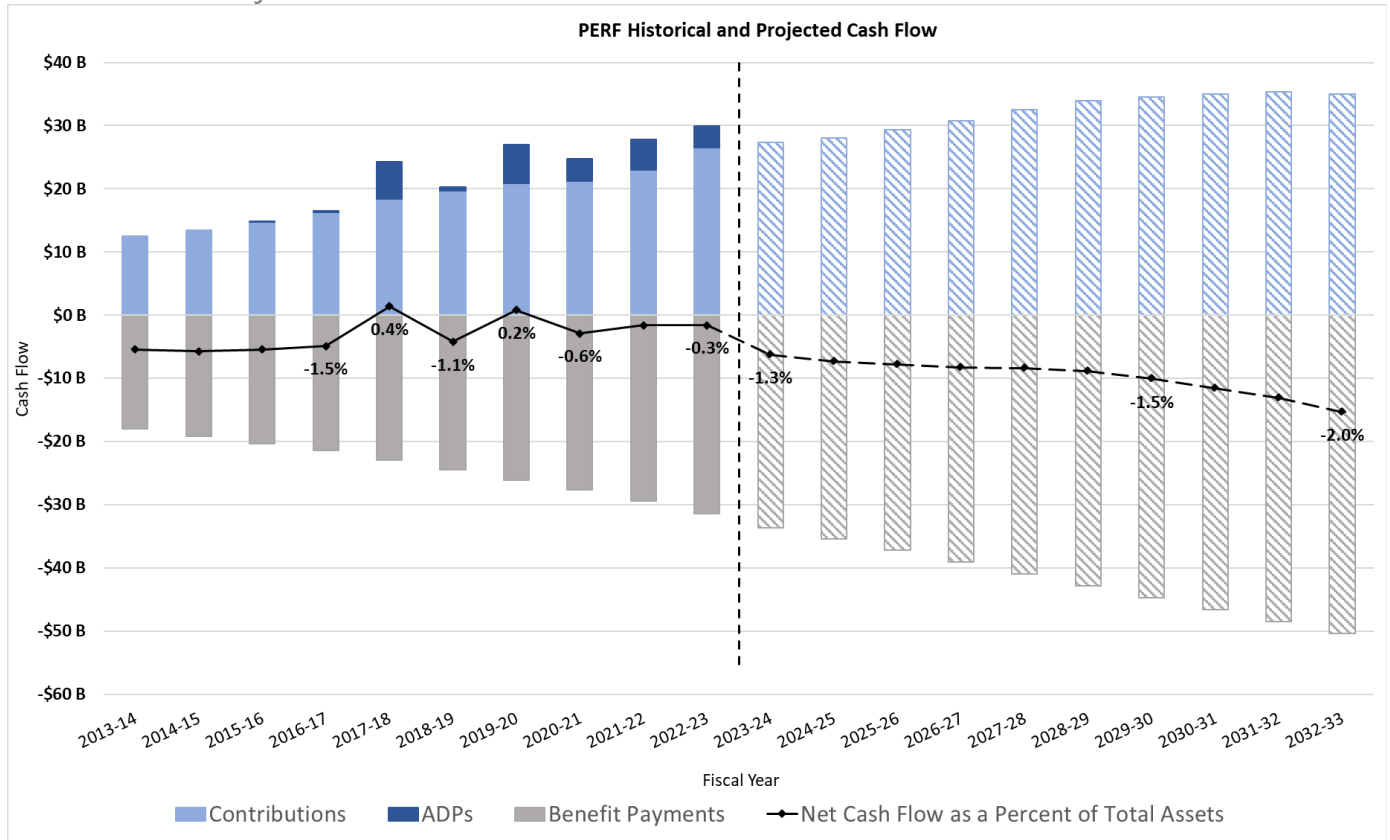
While a change to the discount rate impacts neither the current level of assets nor the amounts of future benefits expected to be paid, it resets the funding target and therefore immediately changes the funded status.

Knowing what we know today regarding the actual investment experience over the past 10-years and the current projection of returns going forward of 6.8%, this period's starting funded status (measured with a 7.5% discount rate) would be remeasured today as being much lower than 69.8%. Therefore, the actual improvement in funded status due to employer contributions over this period is obscured by funding level decreases caused by assumption changes.

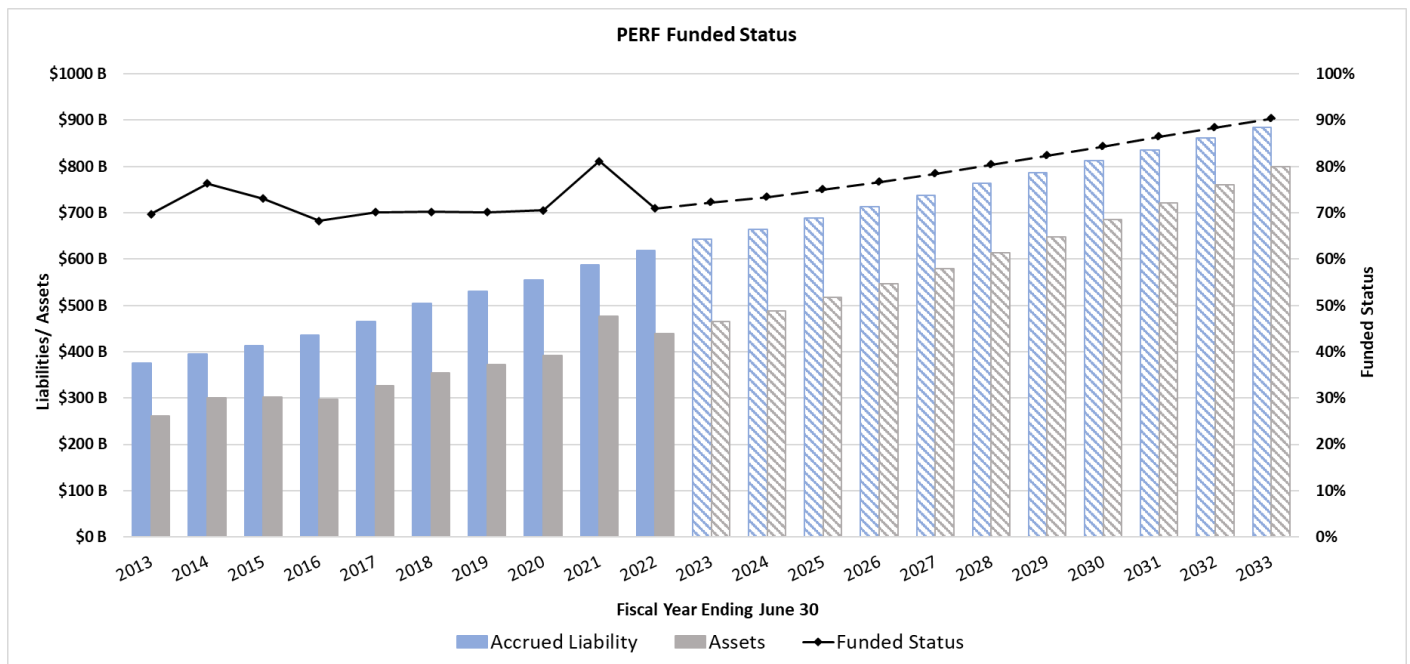
Funding Projections

Assuming all future experience exactly matches the current actuarial assumptions, cash flows and funded status projections for the next 10-years are provided in the charts below.

Historical and Projected Cash Flow



Historical and Projected PERF Funded Status



While benefit payments are expected to continue to increase in a relatively consistent fashion, contribution increases are expected to moderate over the next ten years with decreases expected toward the end of this period. This is due to decreasing projected payments toward UAL as plans become better funded. Lower future contributions are expected to increase negative cash flow as shown above. However, as stated previously, this is an expected result.

Projected results assume no ADPs by employers over the next 10-years. Any such payments would result in faster improvement in the funded status and reduce negative cash flow in those years.

During the previous 10-years, there was only modest improvement in the funded status of the system primarily because of necessary changes to actuarial assumptions and investment losses. While there is no evidence to suggest the need for material changes to any non-investment assumptions in the next 10-years, it is possible the system could experience decreases to the expected investment return and discount rate.

Absent any changes to actuarial assumptions, provided future experience matches the current assumptions and employers continue to make required annual contributions, it is expected the funded status will improve by 15-20% over the next 10-years. An additional reason for potentially faster improvement during this period is the continued phase-in of the current amortization policy which somewhat accelerates the pay down of UAL.

Funded Status - Termination Basis

The term "funded status" as used in the previous charts, is the funded portion of the funding target determined annually for each plan in the actuarial valuation process, reflecting all the actuarial assumptions and methods adopted by the Board of Administration for funding purposes. Alternate funding methods and assumptions yield different funding targets and therefore different funded status results.

If an agency elects to terminate its contract with CalPERS, the employer is required to contribute the amount necessary to fully fund the plan. However, for this purpose, the funded status of the plan is determined using different actuarial assumptions and methods. Since the employer will no longer be obligated to make up any shortfalls in investment return (or due to other economic or demographic events), CalPERS funds the terminated agency pool on a much more conservative basis to ensure that the affected members' benefits are secure. With the funding of terminated plans based on fixed income assets, the termination discount rate depends on actual market rates of return for such assets on the date of termination. Such rates are lower than the ongoing 6.8% discount rate used for funding purposes (currently around 4.50%) and result in a lower funded status for CalPERS plans. A typical CalPERS plan that is currently 70% funded based on a 6.8% discount rate, would be around 50-55% funded based on current termination rates. This indicates some additional risk to public agency members, in the form of potential benefit reductions, if their employer were to terminate their plan and be unable to make the required final contribution to fully fund the plan.

PEPRA Impacts on Funding

The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changed CalPERS retirement benefits, and placed compensation limits on new members.

In general, as defined by PEPRA, a new member includes:

- A new hire who joins CalPERS for the first time on or after January 1, 2013, and **who has no prior membership** in another California public retirement system.
- A new hire who joins CalPERS for the first time on or after January 1, 2013, and who was a member of another California public retirement system prior to that date, but **who is not subject to reciprocity** upon joining CalPERS.

All members who don't fall into the definitions above are considered classic members. Classic members will retain the existing benefit enrollment levels for future service with the same employer.

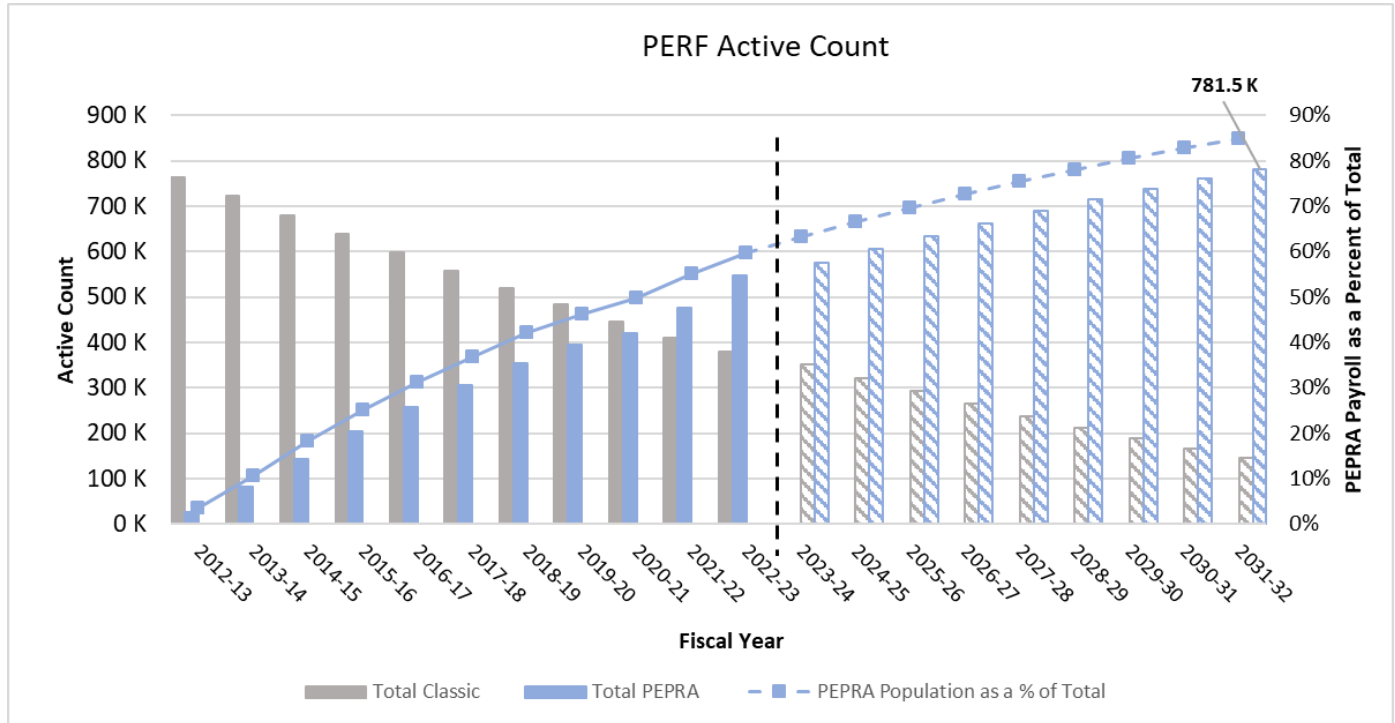
Changes to pension benefit provisions include:

- Generally later retirement eligibility provisions
- Lower benefit multipliers in some cases
- A cap on the compensation used to determine pension benefits
- Member contributions equal to roughly half of the estimated cost of benefits

One of the objectives of PEPRA was to improve the ability of employers to manage the costs of retirement benefits for their members. Due to legal limitations that make it difficult or impossible to change benefit provisions for existing active or retired CalPERS members, if benefit reductions are necessary to align benefit costs with employers' ability to fund them, such changes can only be made for future members of the system. While such changes can reduce future benefit costs in a meaningful way, the full impact on employer contributions can take decades to materialize.

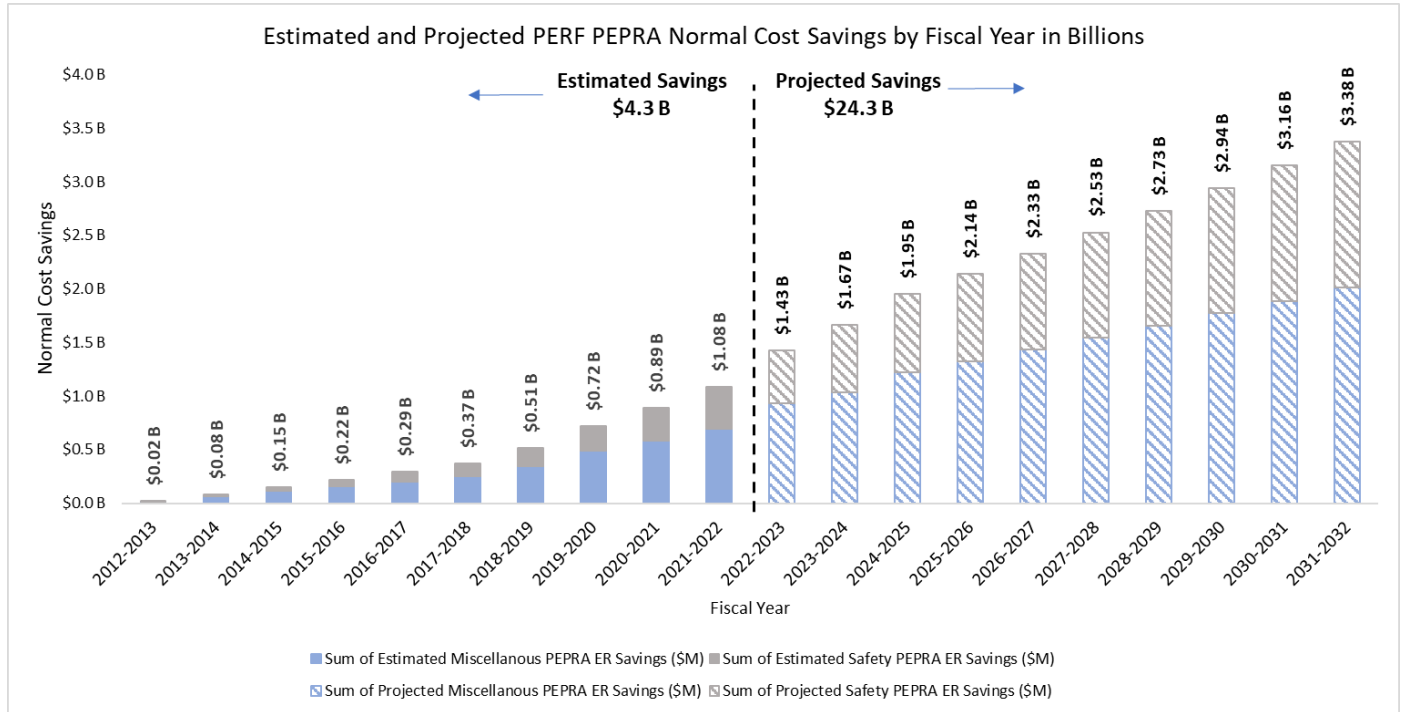
PEPRA has been in effect for roughly 10-years. The progression of PEPRA members within CalPERS over the last 10-years, as well as the corresponding impact on employer costs are explored in this section.

As Classic members terminate or retire, they are generally replaced by PEPRAs. Over the last 10-years, the percentage of PEPRAs out of the entire active member population has continued to grow. This is expected to continue until all active members are subject to the rules and provisions of PEPRAs. The chart below illustrates this progression.



Since the pension benefit changes applied only to new hires, there was no immediate impact on the funded status of the system upon adoption. However, reductions to employer contributions did begin immediately after adoption. As members were hired that were subject to the provisions of PEPRAs, required employer contributions for pre-funding the retirement benefits of these members were adjusted downward to reflect the lower cost of these benefits. In addition, new member contribution rates for these PEPRAs members also took effect immediately. Over the last 10-years, as more and more PEPRAs members were hired, employer cost savings continued to grow.

The chart below provides the estimated annual reduction in employer normal costs since the effective date of PEPRAs through today, as well as projected savings for the next 10-years. The accumulation of these annual normal cost reductions can be thought of as the employer cost savings attributable to PEPRAs.



It is impossible to know the exact financial impact of PEPPRA on employers, as the cost of the system if PEPPRA had not been implemented can never be known. Estimates provided here represent the decrease in employer normal costs due to lower cost benefits and increased member contributions.

While total contributions into the system began to decrease immediately with PEPPRA, the impact on actual benefits paid to retirees developed more slowly. Even today, the portion of annual benefits paid from the system attributable to PEPPRA members is very low. As shown previously, negative cash flow for the system is expected to grow over the next . This is partially due to a larger decrease in contributions than benefit payments due to the phase-in of PEPPRA. Eventually all active and retired members will be PEPPRA members, and contributions and benefit payments will stabilize at "PEPPRA" levels, as opposed to "Classic" levels. However, even at that point, it is expected that total benefit payments will exceed contributions, such that negative cash flow will continue to exist.

Over the last 10-years since PEPPRA's effective date, employer costs have been reduced by \$4-5 billion. However, as illustrated above, expected cost savings over the next 10-years are expected to be roughly 5 times the savings in the previous 10-years.

Identifying and Quantifying Investment Risks

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

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

These risks were evaluated in connection with alternate investment scenarios. Other factors can impact the risks of the system but generally not to the same extent as investment returns. However, longevity and high near-term inflation are potentially material risks. Longevity refers to the potential of an individual to live longer than anticipated. This could be due to medical advancements, lifestyle choices and genetics, all of which have an impact on one’s lifespan and increase the cost of projected benefits. These risks are discussed separately in later sections of the report.

Shared Risk

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

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

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

Risk of Low Funding Levels

When the funded status of a plan is low, the required employer contributions can become quite high. If required contributions exceed the amount that an employer is able to pay, there is a possibility the employer’s CalPERS contract will be terminated, which can lead to benefit reductions for members of that plan. Many CalPERS plans are less than 100% funded as of June 30, 2023. This is not a significant cause for concern provided employers continue to make the actuarially determined required contributions. While there is no specific funded status that indicates a retirement plan and its members are in jeopardy, plans

that fall below 50% would likely have short-term required contributions that would strain the employer's budget.

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

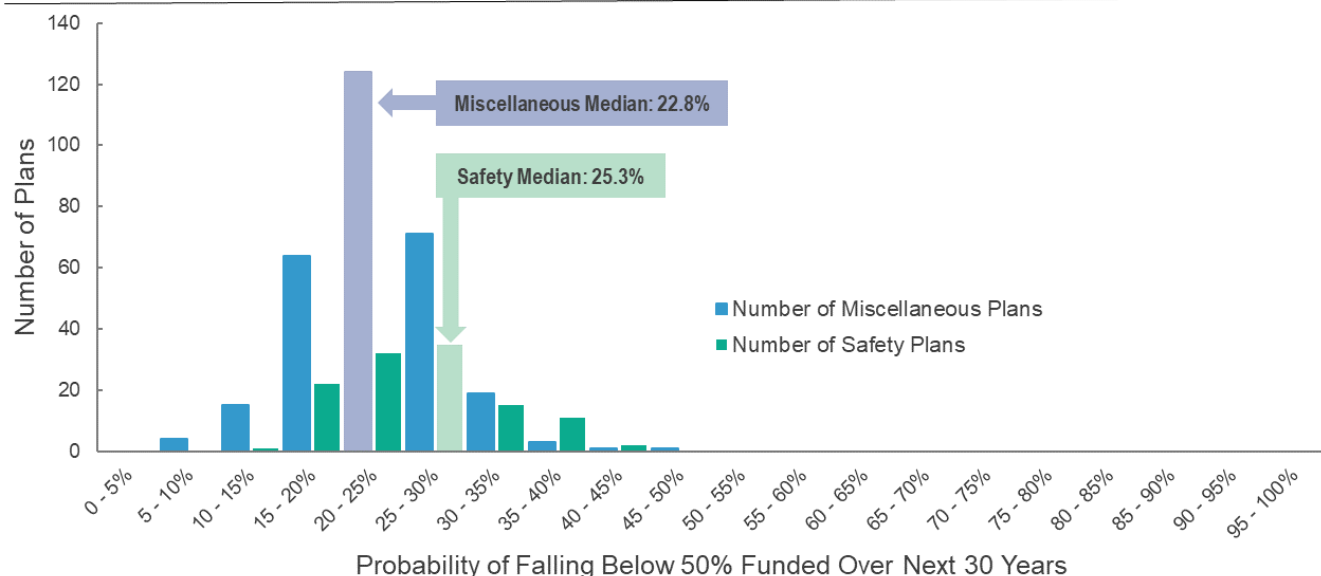
Alternate investment return scenarios were developed based on the expected returns and standard deviations of each of the asset classes in the PERF. Assumed correlations along with a covariance matrix between asset classes are also reflected.

Based on stochastic modeling, the State Miscellaneous Plan has a 20.0% probability of falling below 50% funded at some point over the next 30 years. For the School's Pool, the probability is 20.3%. While many factors contribute to these results, the recent investment loss during the fiscal year ending June 30, 2022 was a primary factor in increases to these percentages. Notably, additional contributions by the state reduced the probability for the State Miscellaneous Plan.

The probability of falling below 50% funded status for CalPERS public agency plans is illustrated in the chart below. The chart shows the numbers of non-pooled plans within various probability ranges of falling below 50% funded. (Pooled plans are expected to have similar results.) For example, 124 miscellaneous plans have a 20%-25% probability of falling below 50% funded over the next 30 years.

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

Distribution of Non-Pooled Public Agency Plans



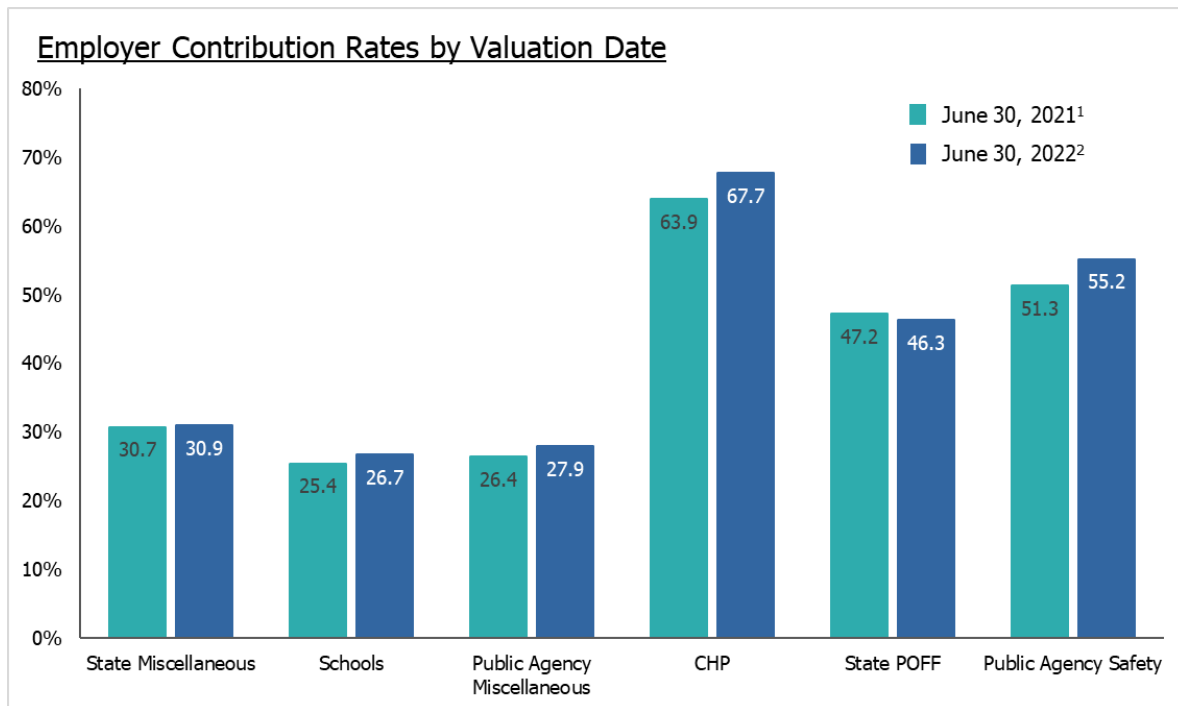
Lower Than Expected Average Investment Returns

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

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

Current State

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



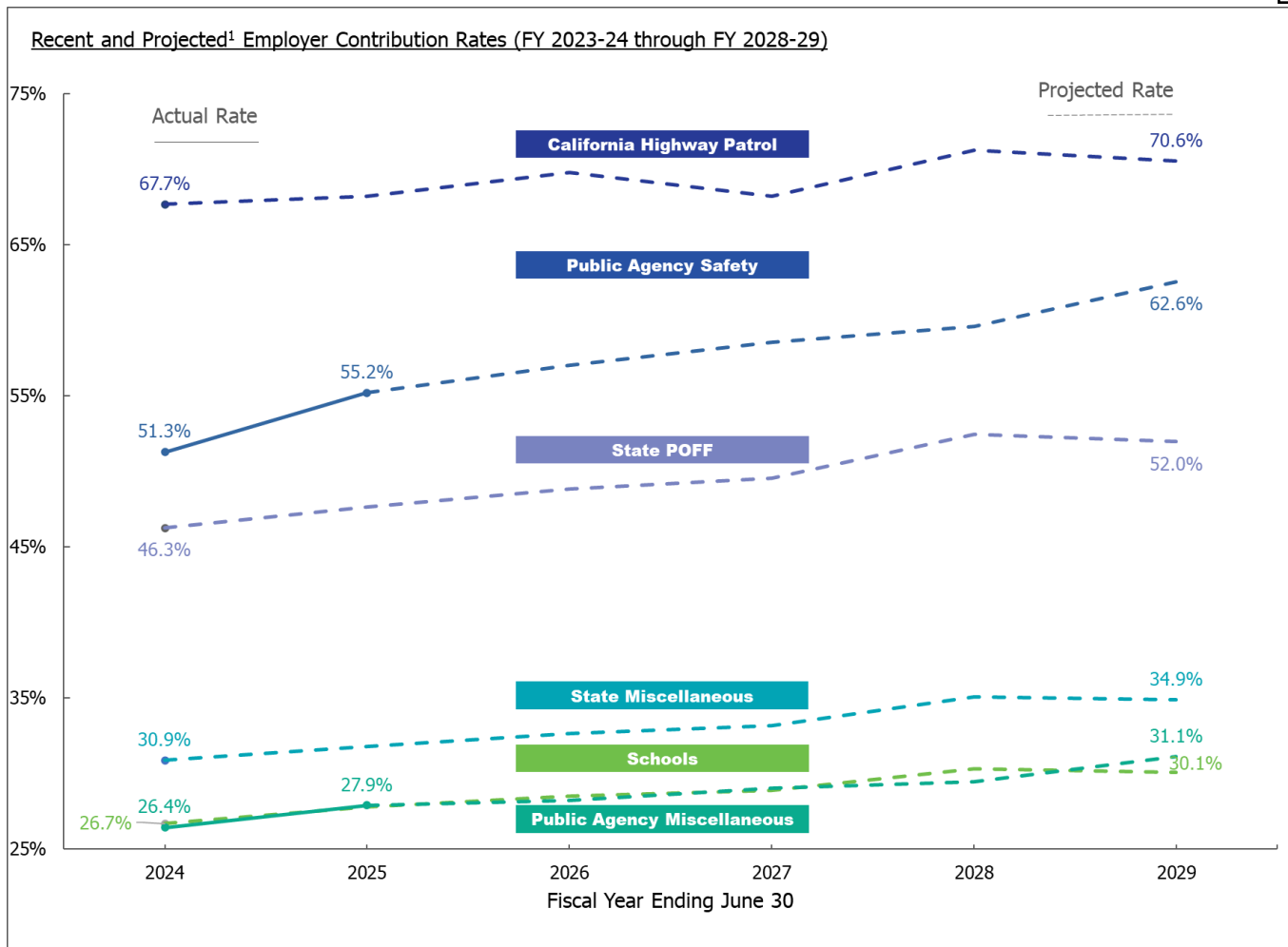
¹June 30, 2021 valuations for state plans and the schools pool set FY 2022-23 rates and set FY 2023-24 rates for public agencies.

²June 30, 2022 valuations for state plans and the schools pool set FY 2023-24 rates and set FY 2024-25 rates for public agencies.

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

Expected Future State

Below are projected employer contribution requirements (expressed as percentage of payroll) based on the June 30, 2022 actuarial valuation results projected forward with an investment return of 6.1% for FY 2022-23 and assumed annual investment returns thereafter of 6.8%.



¹FY 2023-24 state plan and schools pool rates are actual. FY 2023-24 and 2024-25 public agency rates are actual.

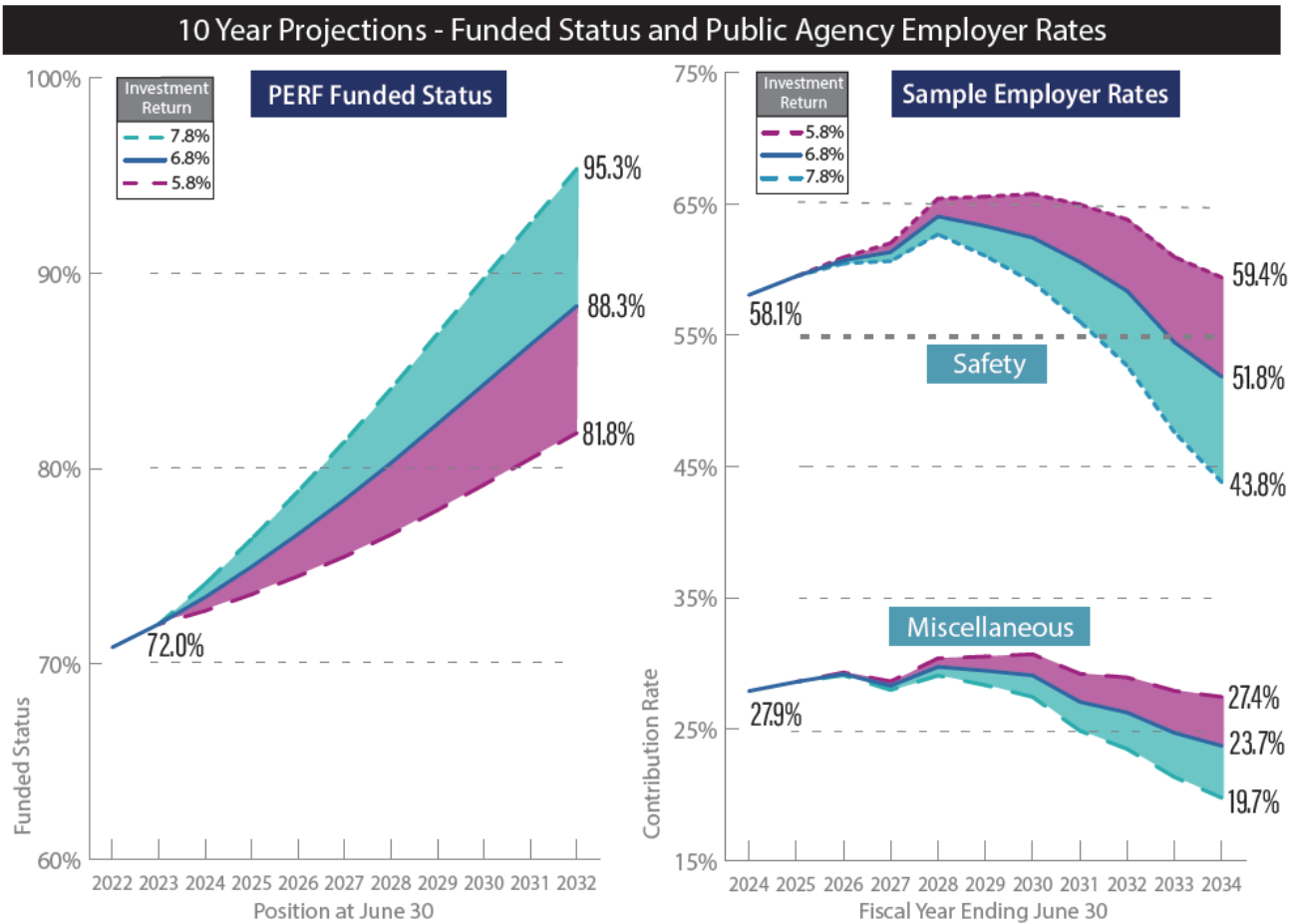
Alternate Investment Scenarios

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

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

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

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



Over longer periods of 20 years or more, chances are greater the average return will be closer to the expected geometric average of 6.8%. However, based on the current allocation of assets and the expected volatility of the various asset classes, there is a significant possibility that the average return over the next 10-years will fall outside of the range illustrated above of 5.8% to 7.8%.

Investment Shocks

Over periods shorter than 20 years or single year periods, the likelihood of varying from the 6.8% expected return is even greater. For example, there is roughly a 16% chance that in a single year, the investment return will be lower than -4.4% and a 16% chance that it will be greater than 18.0%. These returns are one standard deviation lower and higher than the expected return of 6.8%. So, while it is more likely that any

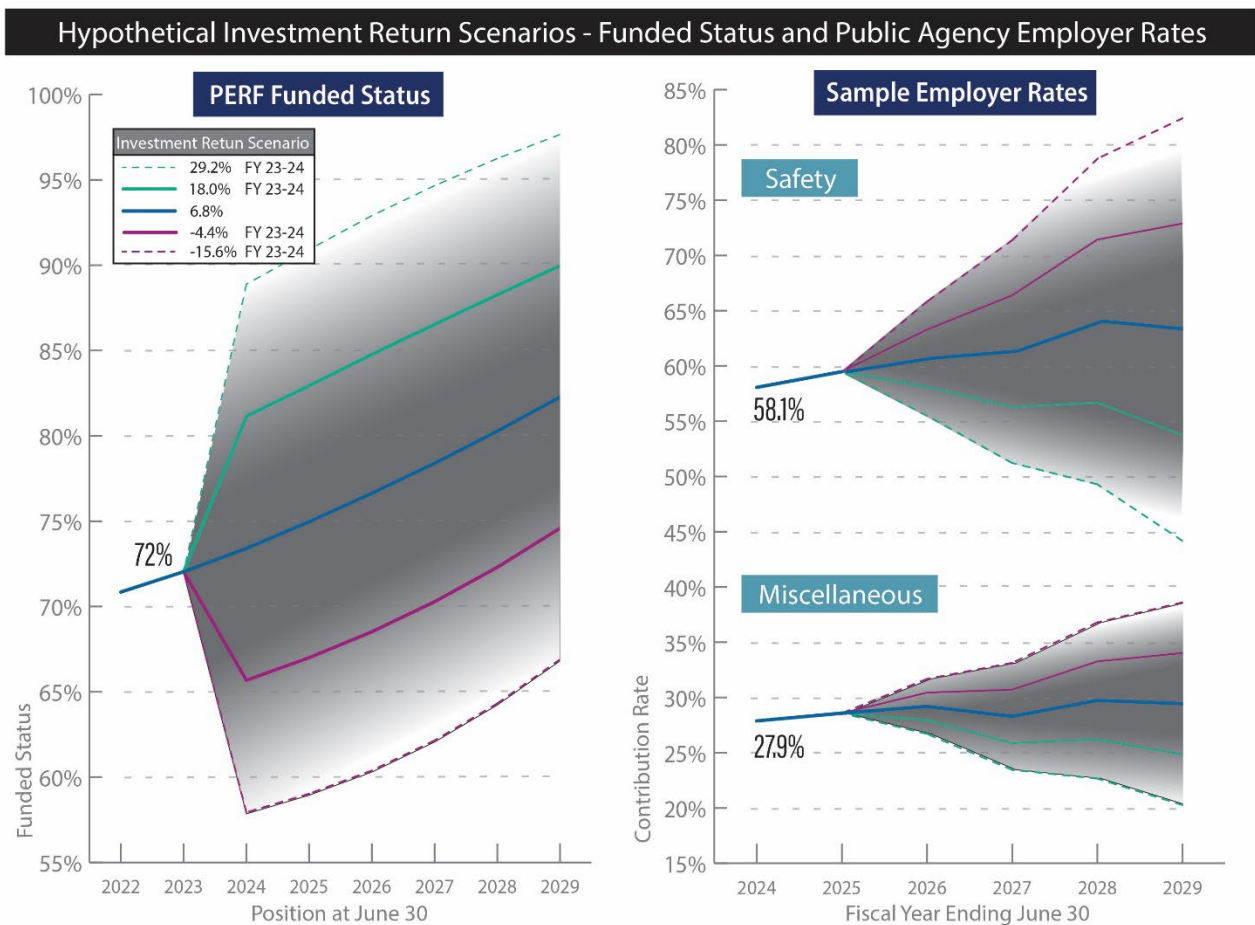
single year return will be between -4.4% and 18.0% (68% probability), the chance of falling outside this range for one year is not insignificant.

A two standard deviation higher or lower return is much less likely but does have roughly a 5% chance of occurring. The two standard deviation range is -15.6% to 29.2%. Or said another way, a return between -15.6% and 29.2% in any given year has a probability of around 95%.

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

The chart below provides the impact of various "shock" returns in the year ending June 30, 2024 with no assumed future correction. The purpose of the chart is to illustrate the potential impact of a single very good year or very bad year of investment return.

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



Key Non-Investment Risks

Mortality

The ultimate cost of a CalPERS members benefit depends on many factors including how long the member lives after retirement. For centuries, life expectancy has been consistently increasing. CalPERS actuaries study the mortality rates of its members, as well as national rates and use this information to project mortality rates into the future. If on average, members live longer than what is projected by the mortality rates used in the actuarial valuations, the cost of benefits increases. This results in downward pressure on funded status results and upward pressure on contribution rates.,

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

COVID-19 Impacts

The pandemic altered the experience of the retirement system in several different areas. These include, investment returns, inflation, deaths, retirements, terminations, disability retirements, pay increases, etc. Material impacts on the demographic results of the system are as follows:

- More deaths than expected over the last few years (roughly 10-15%)
- More retirements occurred than expected in the school's pool and within public agency plans.

While there were a significant number of additional deaths over the last few years, presumably due primarily to COVID 19, the impact on the liabilities of CalPERS plans has been less. Many of these "additional" deaths were among older retirees and therefore liability gains measured in recent valuations were less material than if deaths occurred among younger retirees. We expect to see similar results in the June 30, 2023 valuations.

During the pandemic several employers utilized budget management tools such as golden handshakes, furloughs, pay decreases and staff reductions to reduce short-term spending. There are risks to these tools and it remains of utmost importance that employers use appropriate due diligence.

Long-term COVID-19 Questions

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

These questions will be examined in the November 2025 experience study which will also analyze their impact to the pension system and provide us with enough credible experience to determine if changes are needed to the demographic assumptions. However, the demographic impacts of COVID-19 over the last few years will add complexity and uncertainty to the selection of assumptions in the next Experience Study.

Inflation

Over the last few years, inflation has been significantly higher than the CalPERS long-term assumption of 2.3%. As a result, the most recent actuarial valuation of CalPERS plans as of June 30, 2022, showed most of our plans experienced actuarial losses attributable to inflation. These losses were directly related to higher-than-expected Cost of Living Adjustments to retiree benefits and in some cases, higher than expected pay increases to active members. Losses varied somewhat from plan to plan, but in aggregate amounted to roughly 2% or less of existing CalPERS benefit liabilities. Losses attributable to higher inflation or any other factor, result in increases to required employer contributions, but not increases to PEPRAs member contributions.

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

While recent inflation has been higher than anticipated, long-term estimates continue to be in-line with CalPERS long-term assumption of 2.3%. However, inflation for the year ending June 30, 2023 continued to be higher than the 2.3% assumption. The impacts of this will be quantified in the June 30, 2023 actuarial valuations scheduled for completion in August 2024.

Salary increases due to high inflation can be difficult to predict due to other factors such as budgeting constraints of the employer and the bargaining cycle. Individual employers are in a better position than CalPERS to estimate the impact of future salary increases.

Retiree COLAs, on the other hand, are calculated by CalPERS, and we can say that in the June 30, 2022 actuarial valuation, the April 2022 COLA caused the accrued liability to increase about 1% more than expected. Due to the amortization policy, a liability loss of 1% or less can be absorbed by most ongoing agencies without impacting services. The April 2023 COLA, which was based on 8% annual inflation the prior year, will have a similar impact in the June 30, 2023 actuarial valuation, but the impact will vary based on the COLA provision and whether the agency participates in a risk pool. The following table shows the estimated actuarial loss, as a percent of retiree accrued liability, for the various employers.

Plan Type	Estimated Increase in Retiree Accrued Liability as of June 30, 2023 due to 2023 COLA
Non-pooled Public Agencies	
2% COLA Provision	< 0.5%
3% COLA Provision	4.1%
4% COLA Provision	4.8%
5% COLA Provision	5.3%
Pooled Public Agencies	
Miscellaneous	0.7%
Safety	< 0.5%
State	< 0.5%
Schools Pool	< 0.5%

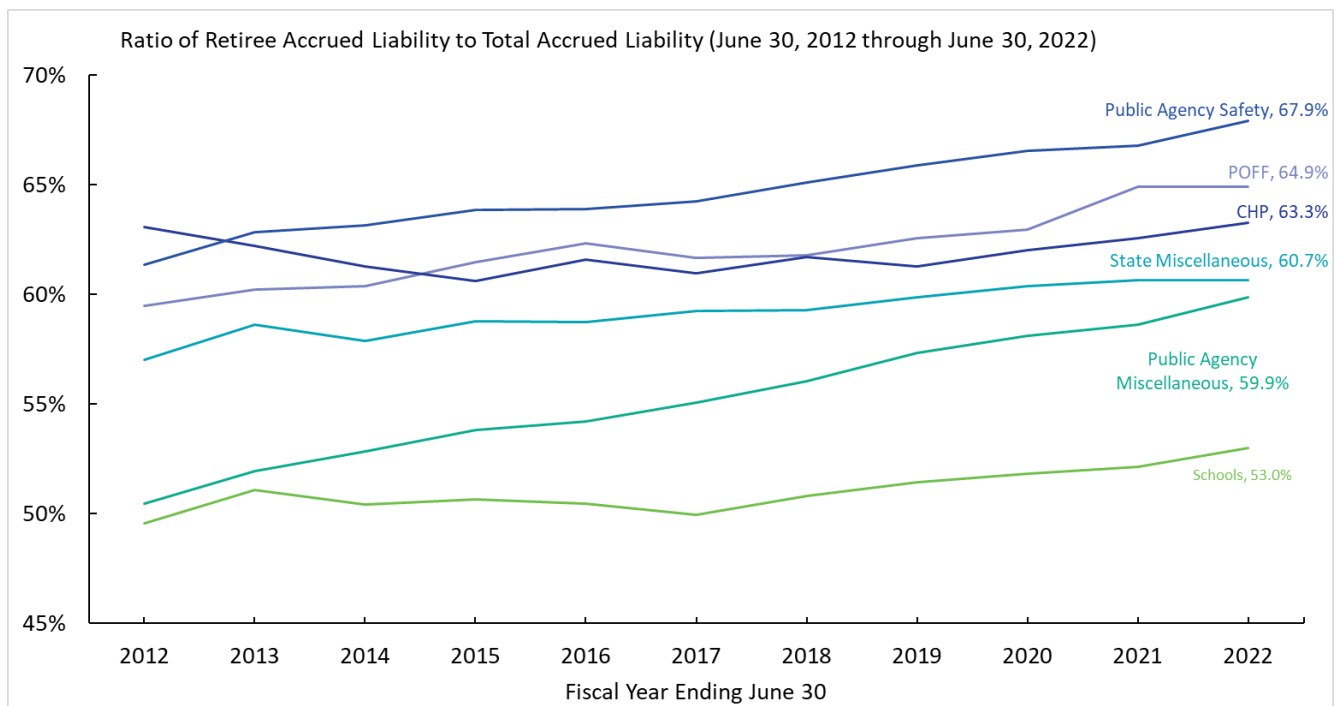
The largest actuarial losses resulting from the 2023 COLAs will be for the non-pooled public agencies that have adopted an enhanced COLA provision. For more information about the impact on a particular rate plan, contact a CalPERS actuary.

Plan Maturity

The maturity of a pension plan can provide useful information regarding its sensitivity to various risks in the future. A variety of risk measures based on plan maturity, can be calculated, and tracked over time for this purpose.

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

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

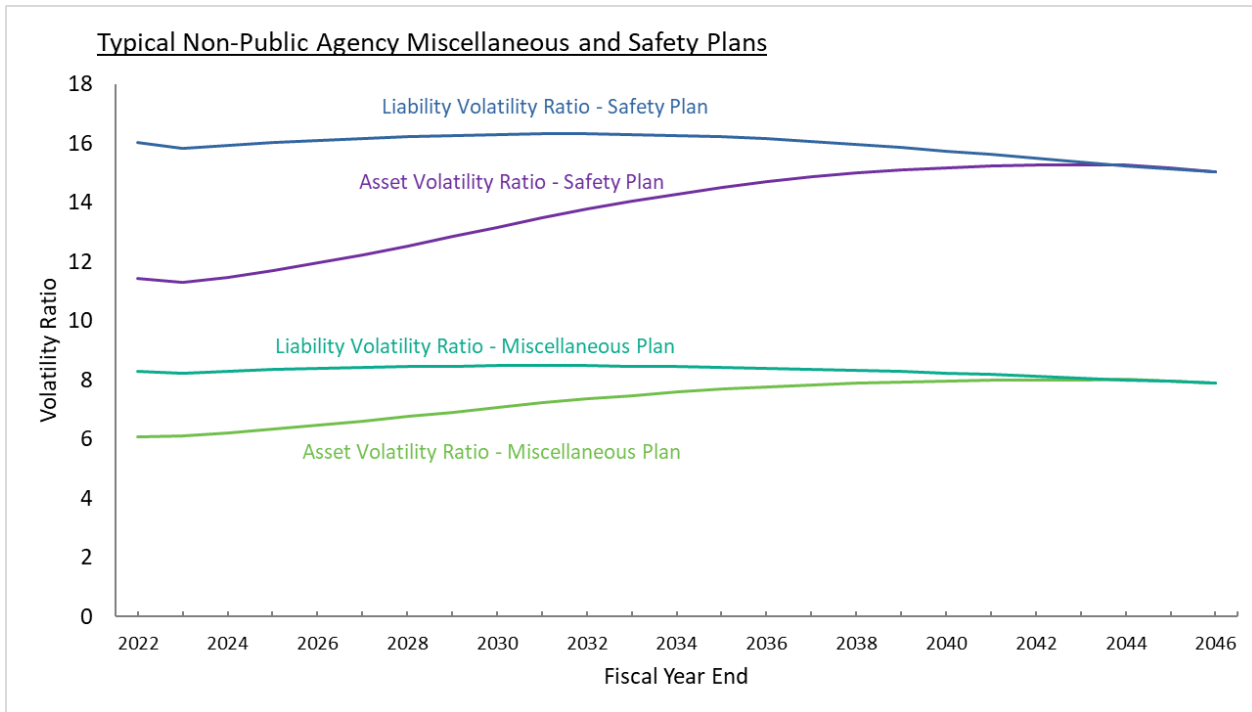


Other measures of plan maturity are the Asset Volatility Ratio (AVR) and the Liability Volatility Ratio (LVR). The AVR is the ratio of assets to payroll, and the LVR is the ratio of liability to payroll. As with the ratio of retiree liability to total liability, these ratios start out low given the low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

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

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

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



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

As illustrated in the chart above, there will be downward pressure on volatility ratios in the future as liabilities for benefits earned by PEPRA members become a larger portion of total liabilities.

The maturing of a defined benefit retirement system is expected and is not a sign of mismanagement or that corrective action needs to necessarily take place. In fact, it is difficult to reduce plan maturity measures without lowering benefits or settling benefit obligations with retirees through lump sums or annuity purchases. However, it is important to recognize that increasing plan maturity typically leads to increased contribution volatility.

Volatility measures can vary significantly from plan to plan. Each plan's annual actuarial valuation includes these measures along with a recent history and discussion of their significance. Employers with higher AVR and MVRs, or those who may be more sensitive to contribution volatility, may wish to create or increase funding toward a stabilization or rainy-day fund such as the California Employers' Pension Prefunding Trust (CEPPT).

Managing Risk

Trend Toward Lower Expected Returns and Discount Rates

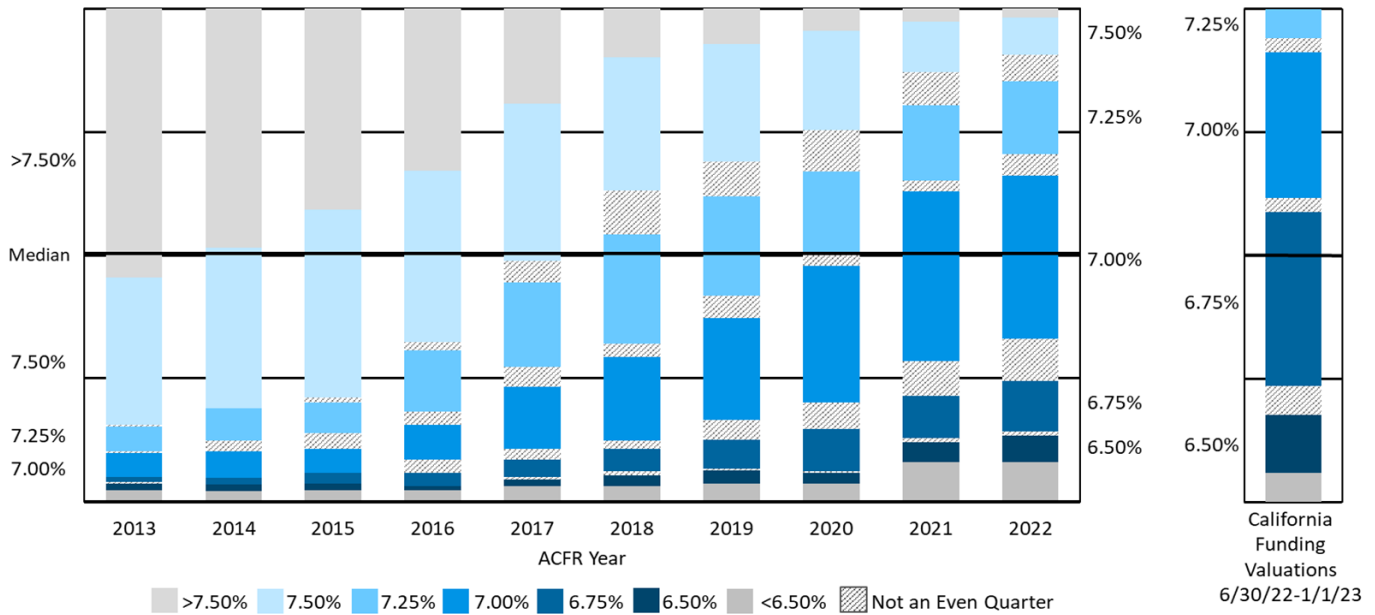
Despite recent increases in interest rates and more favorable capital market forecasts, concerns about lower returns over the next 10 to 20 years persist. The trend nationally for public pension plans in recent years has been a reduction in the rate of return assumption.

Over the last 10-15 years bond yields were below historical averages, and forecasts of economic growth and inflation were also lower than they were prior to 2009. This meant that plans needed to change their asset allocations to accept a higher level of investment risk (to achieve the same level of expected return) or to accept a lower expected return on investments, or a combination of both.

Over the prior two years, price inflation has increased, and the Federal Reserve has responded by increasing interest rates. Up to this point, this does not appear to be significantly impacting long-term assumptions.

CalPERS is not alone in facing the changed expectations of what can be achieved in the capital markets. The chart below left shows the change in distribution of public pension investment return assumptions from 2013 through 2022. The survey shows that based on the available 2022 Annual Comprehensive Financial Report (ACFR) data, discount rates ranged from 5.25% to 8.25% with a median of 7.00%

Distribution of Public Pension Plan Investment Return Assumptions



Data sources: Left - Center for Retirement Research at Boston College Public Plans Data (left), downloaded August 23, 2023
Right - Actuarial Funding Valuations for each system

Each year from 2013 through 2022 between 14% and 35% of the systems included in the survey reduced their discount rates including 16% in the most recent year.

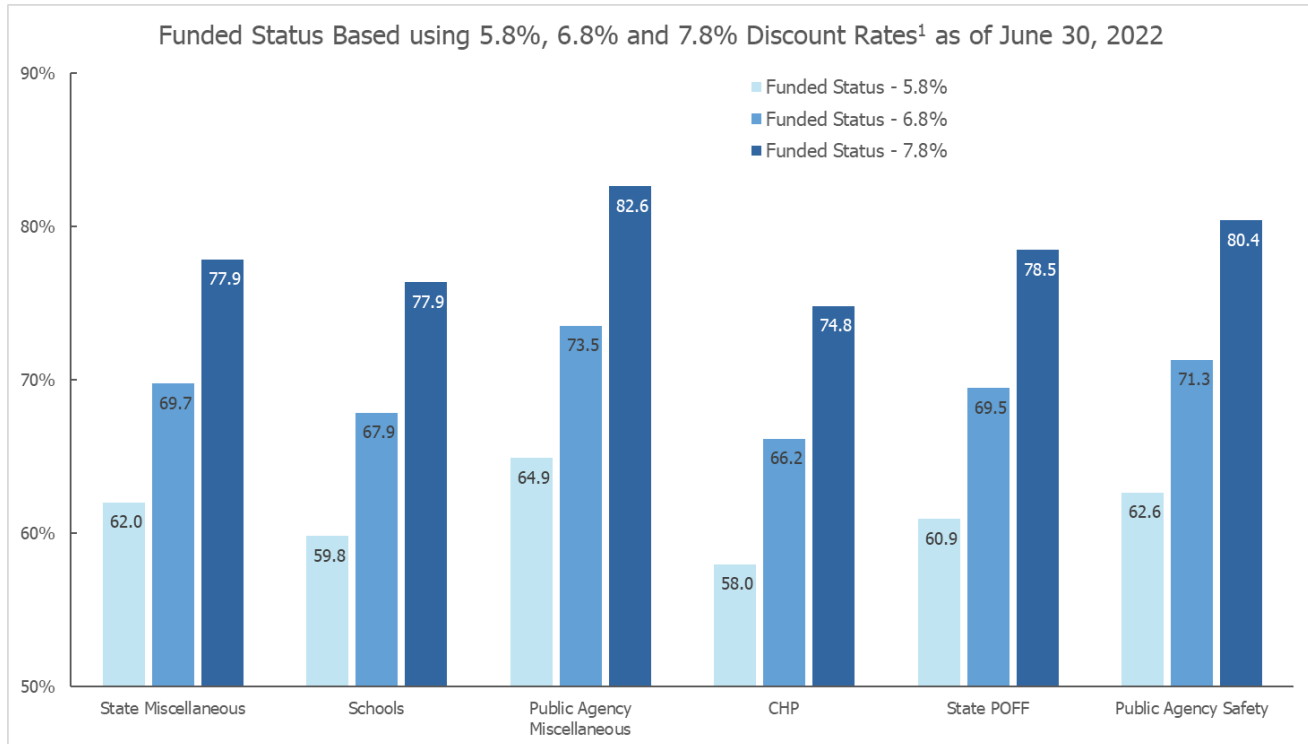
Since the Public Plans Data was compiled from available 2022 ACFR information, which typically reports information from 2021 funding valuations, it is somewhat out of date compared to current funding practices.

The Actuarial Office performs a more up to date, albeit smaller, survey of public retirement systems in California. The discount rates for 34 state, county and city retirement systems within California were compiled. The chart shown to the right of the Public Plans Data is based on funding valuations with valuation dates ranging from June 30, 2022 through January 1, 2023. The survey found that discount rates ranged from 6.00% to 7.25% with a median of 6.75%. Four systems reduced the discount rate since last year's survey, two to 6.75% and two to 6.50%.

It is likely that the reductions in investment return assumptions are the result of the same factors that have influenced changes at CalPERS. As interest rates fell starting in the early 1990s, discount rates only partially followed as investment risk was added to portfolios. With interest rates today higher than they have been in a decade, it will be interesting to observe whether retirement systems will consider reducing investment risk in the future.

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

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



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

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

Amortization Policy

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

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

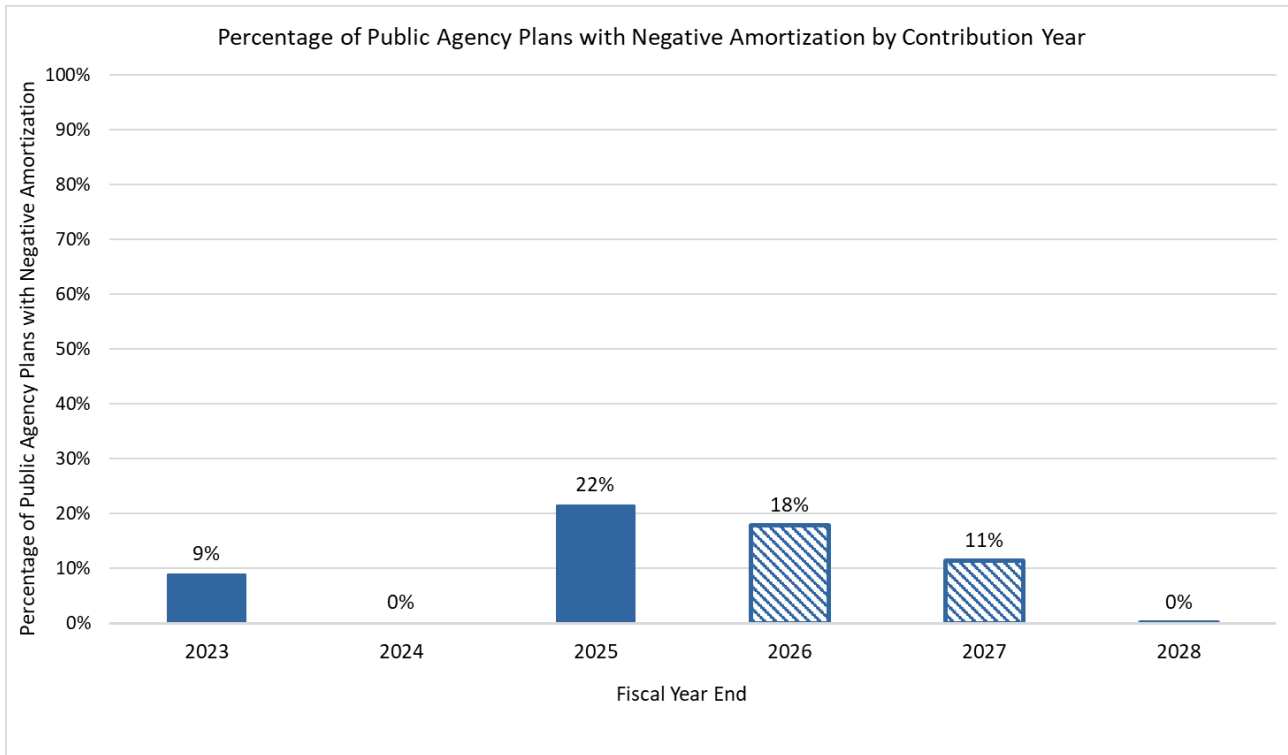
CalPERS current amortization policy adopted by the Board (effective with the June 30, 2019 Actuarial Valuation Reports), improved the overall expected outlook for these objectives relative to the previous policy. In particular, the current policy greatly reduces the possibility of "negative amortization" which occurs when required amortization payments are lower than the interest on a plan's existing UAL.

Negative amortization can be the result of various factors such as:

- UAL bases being paid off over a long period of time (e.g., 25 years or more) using a payment schedule with increasing amounts.
- The interaction of positive and negative UAL bases with different amortization periods which combine to result in a low total payment toward total UAL.
- A large portion of the UAL attributable to recent investment losses that are within the 5-year phase-in period.

The current CalPERS amortization policy precludes the first scenario from occurring. For CalPERS plans, the third bullet item above is likely to be the cause of negative amortization if negative amortization exists. However, in such situations the funded position of the plan is typically higher than the average plan and the period over which the negative amortization is expected to occur is typically short (<5 years).

Given the large investment losses for the year ending 6/30/22, it was expected that a significant number of well-funded CalPERS plans would have required UAL payments for FY 2024-25 that would be less than interest on the UAL. As shown in the chart below, the number of rate plans subject to negative amortization increased from 0% to 22% this year.



While the number of plans with negative amortization for this year is higher than usual, the dollar amount of UAL associated with these plans is a relatively low percentage of CalPERS total UAL. In addition, as illustrated in the chart above, negative amortization for these plans is not expected to continue beyond a few years.

We do not consider the high number of plans with negative amortization this year a result of any issue with the CalPERS amortization policy. In addition, CalPERS agencies are notified within the annual valuation report if the required UAL payment is less than interest on the UAL. The report also provides the amount of ADPs that would be necessary to eliminate the negative amortization.

Note: The Actuarial Amortization Policy addresses situations where an employer has requested an extension of the amortization of the UAL due to a financial necessity. While these policies can temporarily moderate employer contribution requirements, such employers are required to contribute at least interest on the UAL.

Employers Making Supplemental Payments

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

The primary advantages of additional contributions are:

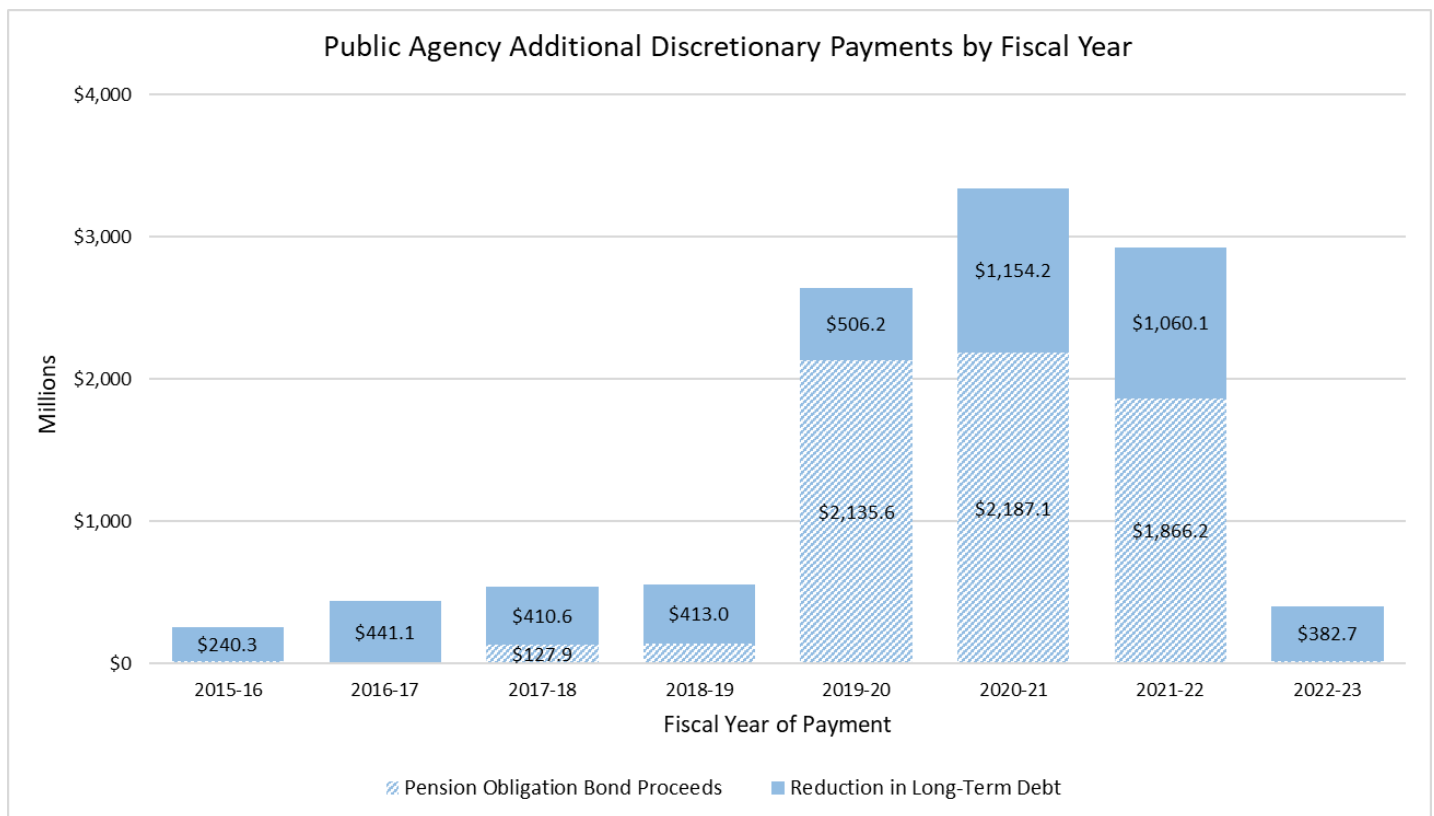
- Expected savings in interest paid and lowering the overall cost of the pension program
- Lower risk of low funded status in the future
- Lower risk of high contributions in the future
- A reduction to net pension liability for financial reporting purposes
- A reduction in pension expense for financial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

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

The State of California also makes contributions in excess of the actuarially required contributions in order to reduce UAL. Some additional contributions have been collectively bargained, some are due to a provision in the California Constitution that requires certain surplus funds be used to reduce State pension debt, and some are discretionary and serve to reduce long-term costs and stabilize contribution rates. In FY 2023-24, the State is expected to contribute over \$2 billion more than the actuarially required contributions.

In addition to ADPs, public agencies have also been issuing Pension Obligation Bonds (POBs) with increased frequency since FY 2019-20. A POB is a taxable bond that some agencies issue to fund the unfunded portion of their pension liabilities by creating a debt to bondholders. The low interest environment likely contributed to the recent trend of public agencies issuing POBs. Now that interest rates are beginning to rise, the frequency of new POB issues has all but ceased. We are not aware of any POBs being issued by CalPERS public agencies since August 2022.

The chart below reflects the total ADPs made by public agencies including the POBs that were issued in order to make those ADPs. The ADPs reduce long-term public agency debt only to the extent they exceed new POB issues. Although much of the increase in ADPs over the last few years has been driven by an increased use of POBs, agencies continue to pay off pension debt. The total public agency ADPs that were not paid for with POB proceeds has increased to over \$1 billion per year for two straight years before sharply declining in 2022-23.



ADP information was provided by the CalPERS Financial Office. POB issuance data was downloaded from the [California Debt and Investment Advisory Commission](#) on the California State Treasurer website.

California Employers' Pension Prefunding Trust Program

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

The purposes of Section 115 pension trusts include the following:

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

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

The unfunded pension liabilities and future pension contribution volatility summarized in the previous sections of this report do not reflect the fact that hundreds of public employers already have Section 115 pension trust funds. Because Section 115 pension trusts can be expensive to set up and administer, CalPERS launched the California Employers' Pension Prefunding Trust (CEPPT) in 2019. The CEPPT was established by Senate Bill 1413 which provides public agencies additional low cost and not-for-profit investment vehicles to help manage pension costs. Participation in the CEPPT is voluntary and provides employers with the flexibility to determine the amount of their contributions, reimbursements, and overall funding strategy. The CEPPT offers two broadly diversified portfolio options with low to moderate risk profiles that are expected to have a net rate of investment return of 3.5% and 4.5%, respectively. As of October 2023, a total of 94 employers have established CEPPT accounts with assets under management totaling approximately \$175 million.

Conclusion

Over the last few years various external factors have had material impacts on the experience of the retirement system. These include extreme investment experience (both favorable and unfavorable), a global pandemic and historically high levels of inflation.

In addition, over the last 10-years the system has had to recognize investment losses and significantly lower levels of future expected investment return due primarily to lower capital market assumptions across most asset classes. Also, during this 10-year period however, employer costs were somewhat reduced due to the impact of PEPR.

The combined impact of the above factors has resulted in increased required employer contributions and only modest improvements in the funded status of the system over the last 10-years. However, necessary changes to actuarial assumptions over the last decade have positioned the system to see greater improvements in funded status over the next 10-years.

Employer contributions are currently at relatively high levels due to large amounts of UAL and are projected to increase somewhat over the next 5 years. In addition, uncertainty within the economy suggests a near-term economic recession is a possibility. The ability of employers to continue making required contributions to the system is the area of greatest concern.

For employers facing financial difficulties, financial necessity policies within the CalPERS amortization policy can be used in some cases to spread amortization payments over a longer period and hence reduce near-term contributions. However, these policies require minimum contributions that may still pose challenges for some agencies. In addition, these policies do not reduce costs but merely delay and increase them.

Various strategies and actions by CalPERS, its Board of Administration, and its employers have improved the sustainability of the system and mitigated certain risks. Among these are:

- The adoption of the current amortization policies that mitigate the risk of the system dropping to dangerously low funding levels.
- The increased level of additional contributions made by CalPERS agencies.
- The use of a separate 115 trust by many CalPERS agencies for minimizing the risk of required contribution spikes and volatility
- The continued improvements in investment policies which maintains favorable investment return expectations and associated volatility.
- Improved modeling tools that allow CalPERS and its participating employers to forecast future required contributions and funded status under a variety of possible future scenarios.

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

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

CalPERS and its participating employers have taken many positive steps to manage the risks of the system. Increased focus on these risks and opportunities to minimize and manage them, as discussed in this report, will be of utmost importance going forward.

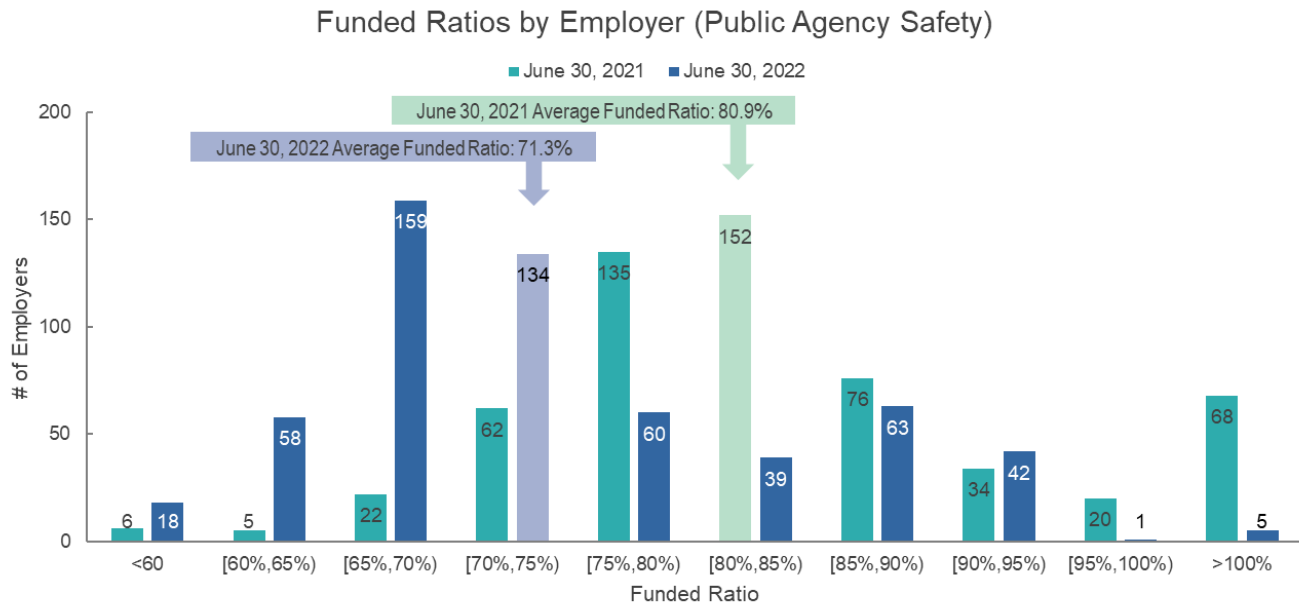
Appendix A – Public Employees’ Retirement System (PERS) Summary Statistics

	June 30, 2021	June 30, 2022
Number of Actives ¹	844,905	867,844
Number of Transferred ¹	166,686	167,329
Number of Separated ¹	458,012	496,715
Number of Receiving ¹	897,640	922,678
Payroll	\$58.7 billion	\$62.3 billion
Entry Age Accrued Liability	\$587.3 billion	\$618.8 billion
Market Value of Assets	\$476.2 billion	\$438.4 billion
Unfunded Liability	\$111.1 billion	\$180.4 billion
Funded Status	81.1%	70.8%
Prior Year Benefit Payments	\$27.7 billion	\$29.4 billion
Prior Year Employer Contributions	\$20.0 billion	\$22.7 billion
Prior Year Employee Contributions	\$4.8 billion	\$5.2 billion

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

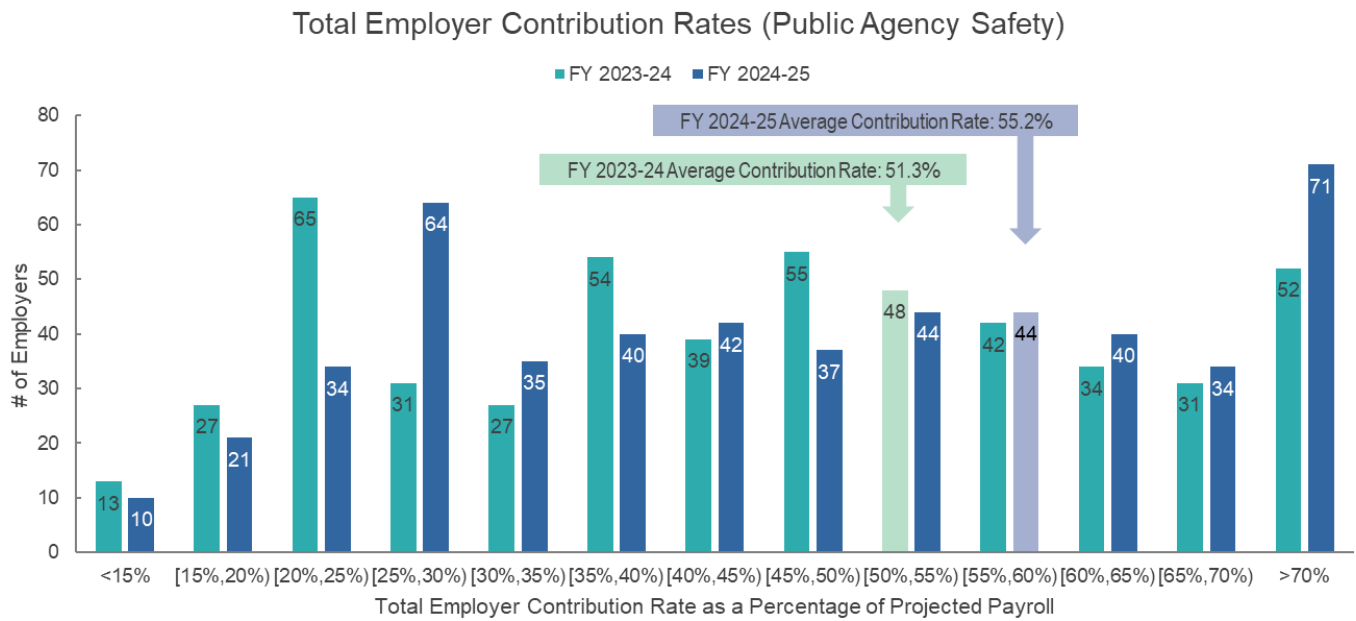
Appendix B – Results of June 30, 2022 Public Agency Valuations for Safety Plans

Public Agency Funded Ratios for Safety Plans

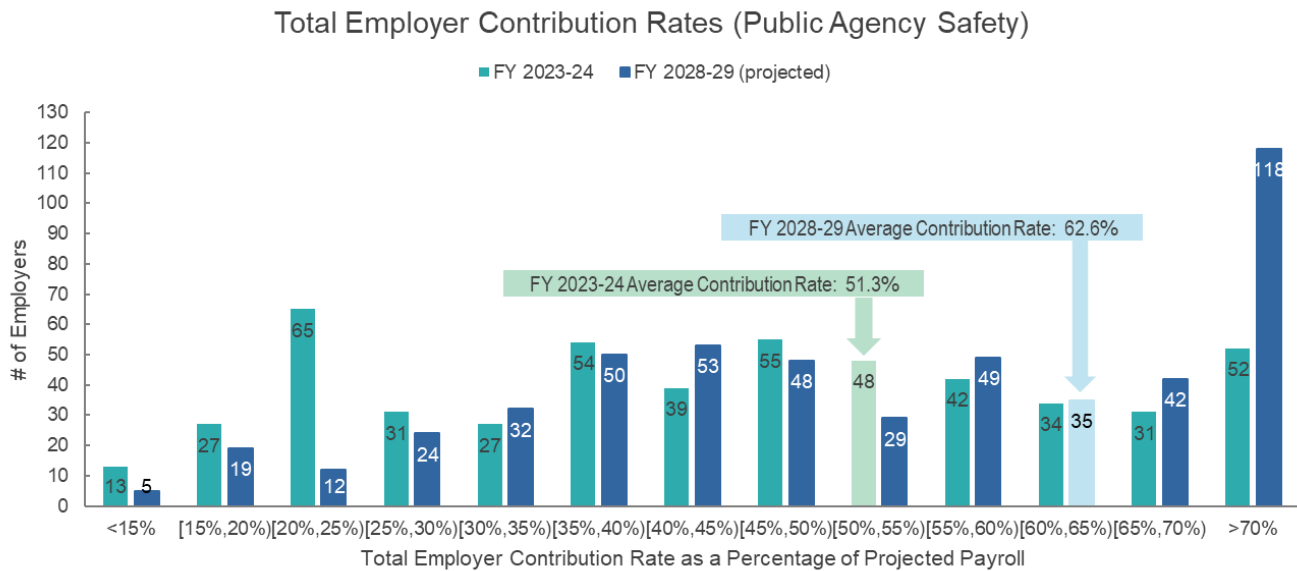


Public Agency Contribution Rates for Safety Plans

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

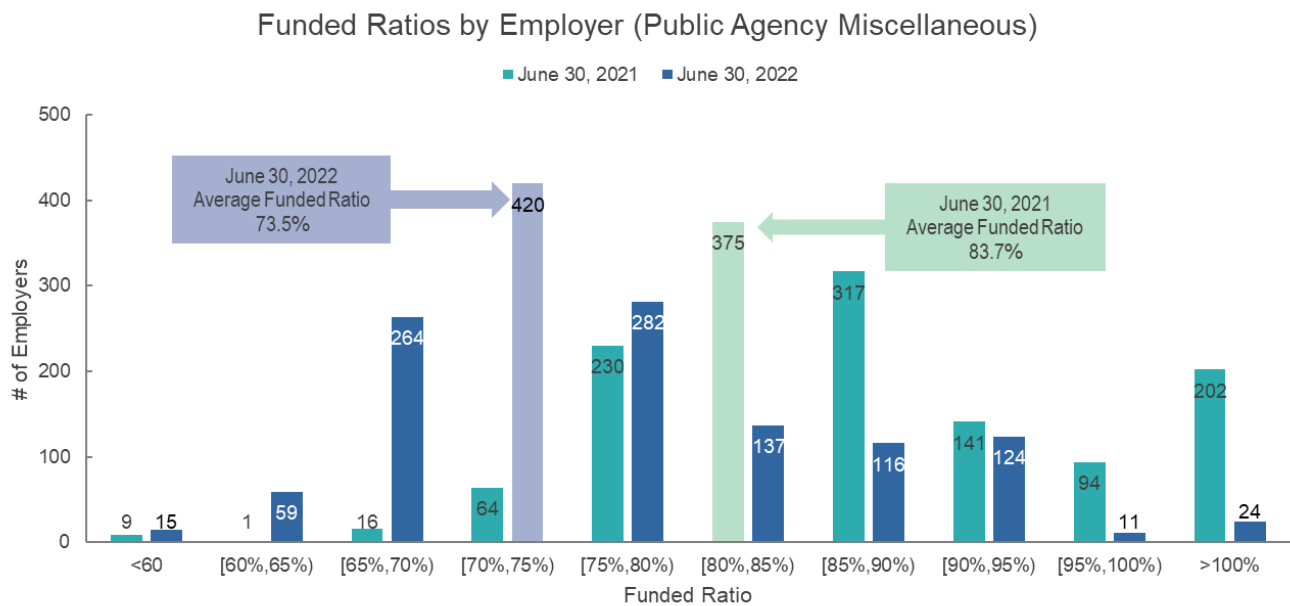


The following table displays the actual and projected total employer contribution rates for public agency safety plans that contract with CalPERS for benefits. These contribution percentages reflect both the required normal cost contribution percentage and the required payment toward any UAL (converted to a percent of payroll). FY 2028-29 rates are based on a projected payroll. For plans with a decreasing number of active members (and therefore decreasing payroll), these contribution percentages can become quite large when the required payment toward UAL becomes a large percentage of the decreasing payroll. In addition, the projected contributions are based on experience through June 30, 2022. There will be additional investment, economic and demographic experience that will impact the projected rates before they become actual rates in the future.



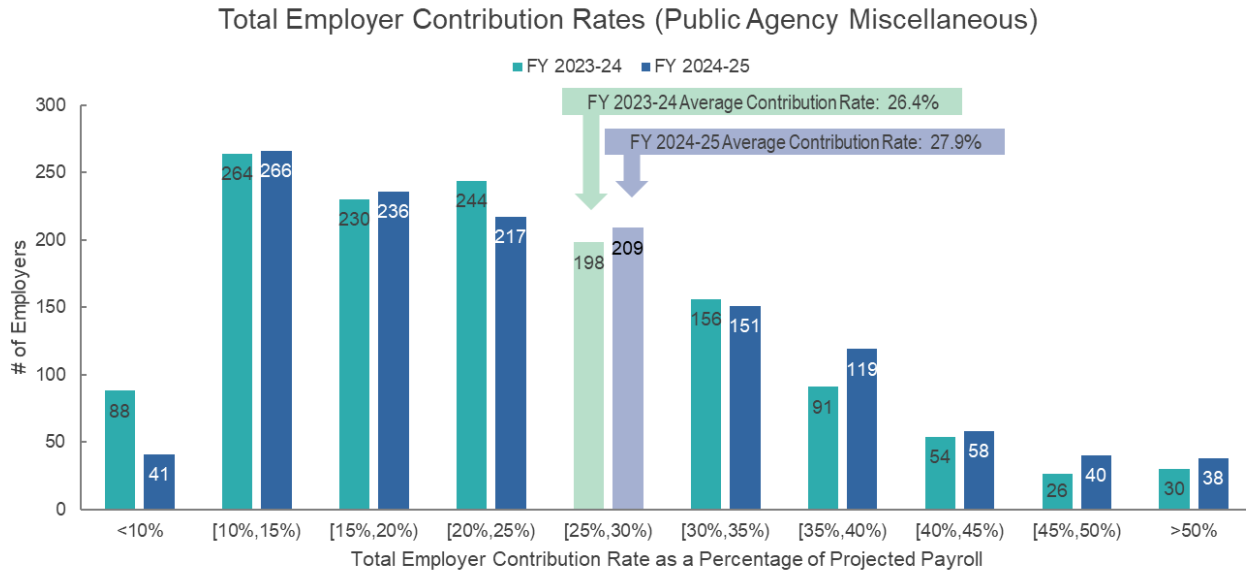
Appendix C – Results of June 30, 2022 Public Agency Valuations for Miscellaneous Plans

Public Agency Funded Ratios for Miscellaneous Plans



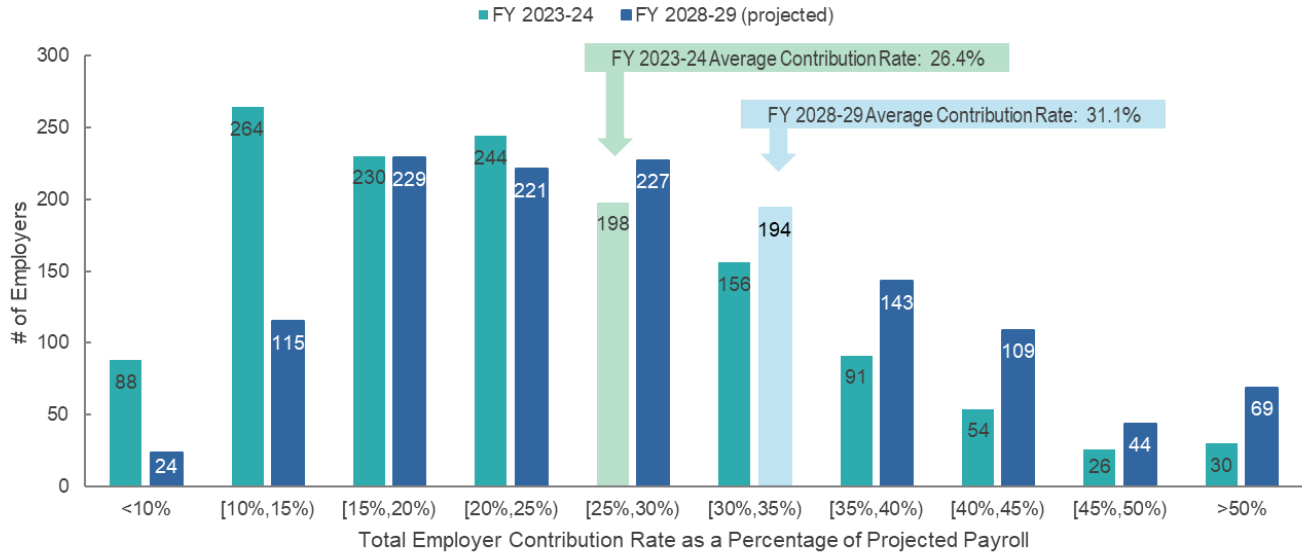
Public Agency Contribution Rates for Miscellaneous Plans

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



The following table displays the actual and projected total employer contribution rates for public agency miscellaneous plans that contract with CalPERS for benefits. These contribution percentages reflect both the required normal cost contribution percentage and the required payment toward any UAL (converted to a percent of payroll). FY 2028-29 rates are based on a projected payroll. For plans with a decreasing number of active members (and therefore decreasing payroll), these contribution percentages can become quite large when the required payment toward UAL becomes a large percentage of the decreasing payroll. In addition, the projected contributions are based on experience through June 30, 2022. There will be additional investment, economic and demographic experience that will impact the projected rates before they become actual rates in the future.

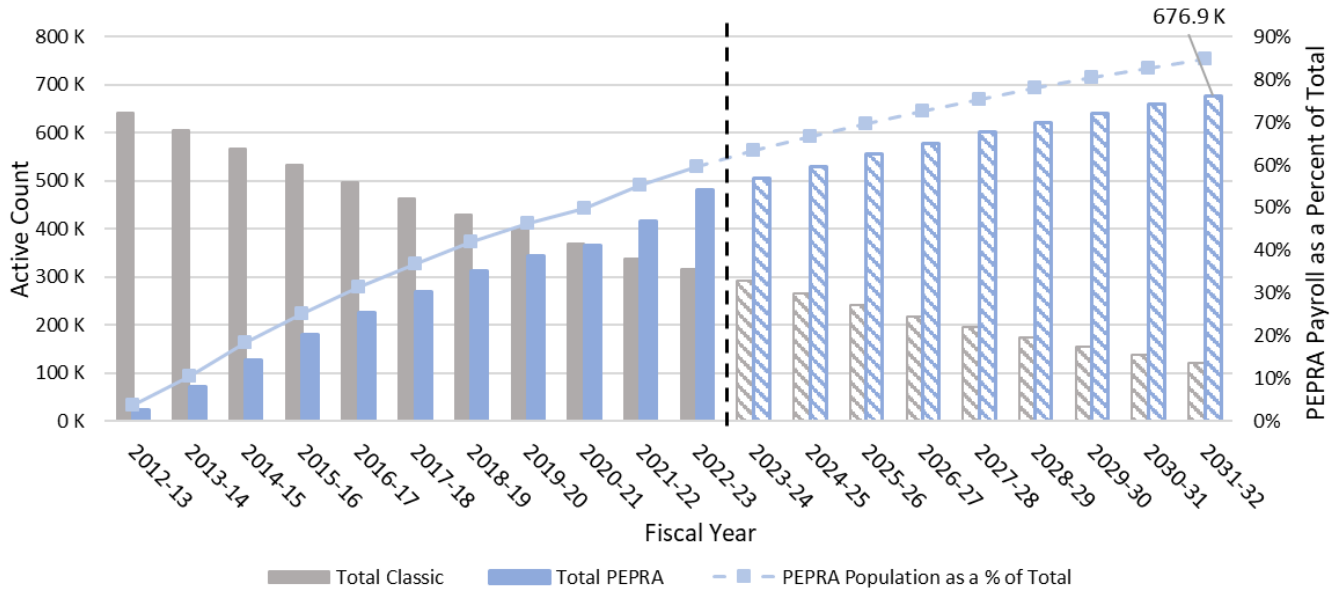
Total Employer Contribution Rates (Public Agency Miscellaneous)



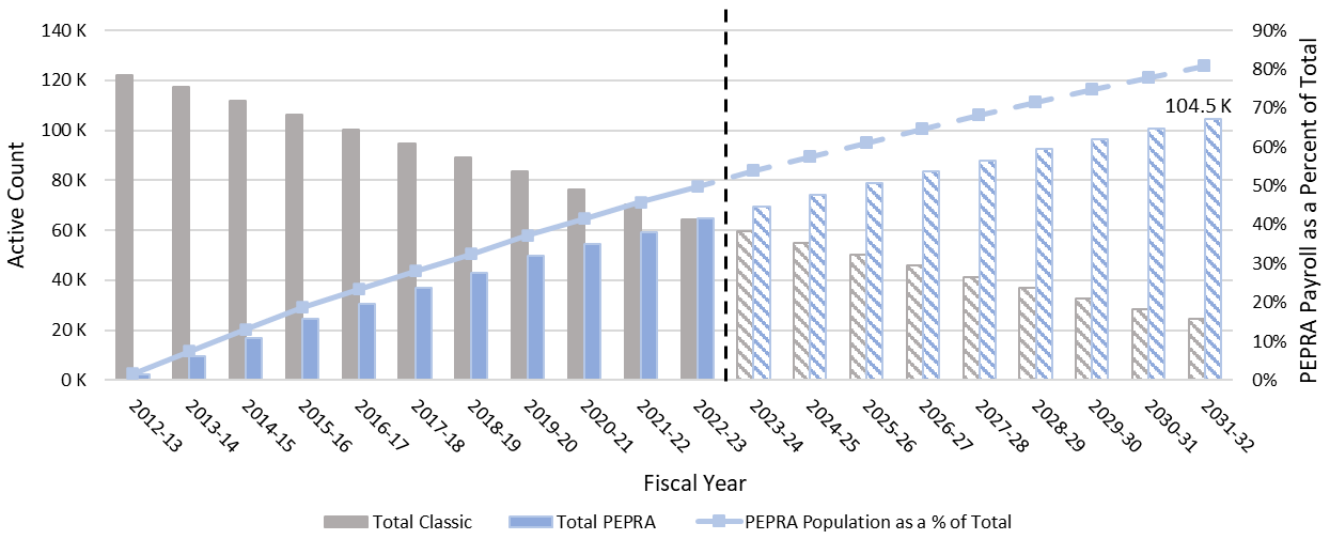
Appendix D – Additional Information on PEPRA Impacts

Plan Type	% PEPRA Members 6/30/2023	% PEPRA Payroll 6/30/2023	Cost savings Last 10-Years	Cost Savings Next 10-Years
State	50%	43%	\$1.3 B	\$7.6 B
Schools	57%	49%	\$0.8 B	\$3.7 B
Public Agencies	68%	50%	\$2.3 B	\$13.0 B

Miscellaneous Active Count



Safety Active Count



2023 Annual Review of Funding Levels and Risks

November 2023





**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/11/2023

ITEM NO: 8

Item 8.

DATE: December 7, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the First Quarter Key Performance Indicators (KPIs) for FY 2023/24

RECOMMENDATION:

Receive the first quarter (Q1) Key Performance Indicators for FY 2023/24 (Attachment 1).

Attachment:

1. KPIs Q1 FY 2023/24

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager, and Assistant Town Manager

General Fund Revenues

	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Actual	FY 2023/24 Adopted Budget	FY 2023/24 Q1 Estimated
Property Tax	\$ 15,826,162	\$ 16,899,618	\$ 18,187,388	\$ 16,969,226	\$ 150,291
VLF Backfill	4,052,672	4,229,462	4,555,700	4,556,000	-
Sales & Use Tax	6,794,218	7,177,597	7,507,068	7,559,556	1,664,474
Measure G District Tax	1,139,386	1,306,076	1,299,409	1,277,690	297,885
Franchise Fees	2,499,463	2,822,515	3,074,624	2,716,470	436,004
Transient Occupancy Tax	1,044,820	1,895,064	2,228,190	2,000,000	648,249
Other Taxes	1,386,943	1,481,667	2,361,862	2,444,000	43,174
Licenses & Permits	2,999,711	4,839,489	3,268,498	2,852,574	1,105,520
Intergovernmental	1,573,697	1,263,352	1,553,397	1,273,910	217,273
Town Services	4,835,962	5,435,769	4,646,675	4,837,189	2,319,355
Fines & Forfeitures	103,467	319,170	416,951	226,750	90,419
Interest	96,061	-1,404,527	605,789	432,947	1,502,114
Other Sources	4,125,566	7,549,617	8,205,636	5,805,959	242,524
Total Revenues	\$ 46,478,128	\$ 53,814,869	\$ 57,911,187	\$ 52,952,271	\$ 8,717,282
Transfers In:	1,833,218	633,352	538,536	538,536	114,499
Total Revenues & Transfers In	\$48,311,346	\$54,448,221	\$58,449,723	\$53,490,807	\$8,831,781

ATTACHMENT 1

Economically Sensitive Revenues

SALES TAX*	FY 2021/22 Actual	FY 2022/23 Actual	FY 2023/24 Estimated
1Q	\$1,726,453	\$1,877,426	\$1,664,474
2Q	\$1,758,763	\$1,999,376	
3Q	\$1,758,763	\$1,646,031	
4Q	\$1,883,504	\$1,929,117	
Total	\$7,127,483	\$7,451,950	\$1,664,474

*Amount Shows Net of Administration Fees

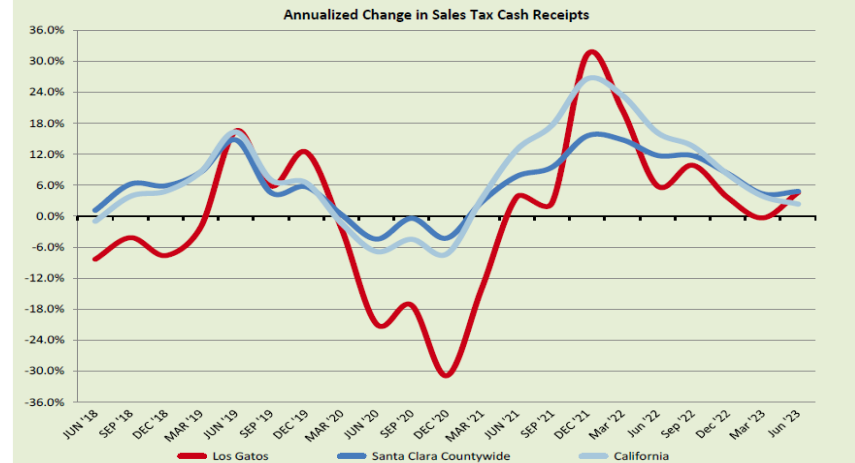
MEASURE G TAX*	FY 2021/22 Actual	FY 2022/23 Actual	FY 2023/24 Estimated
1Q	\$ 316,317	\$ 314,614	\$ 297,885
2Q	324,525	335,398	
3Q	295,671	295,723	
4Q	204,736	312,393	
Total	\$ 1,141,249	\$ 1,258,128	\$ 297,885

*Amount Shows Net of Administration Fees

2023 Q2 Sales Tax Update

Town of Los Gatos

2023Q2 Sales Tax Update



TOT	FY 2021/22 Actual	FY 2022/23 Actual	FY 2023/24 Estimated
1Q	\$ 513,536	\$ 664,278	\$ 648,249
2Q	428,880	513,587	
3Q	320,077	468,297	
4Q	632,571	582,027	
Total	\$ 1,895,064	\$ 2,228,189	\$ 648,249

Department General Fund Expenditures

Expenditures	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Actual	FY 2023/24 Adopted Budget	FY 2023/24 Q1 Estimated
Police Department	16,570,836	16,541,189	18,446,040	19,685,258	4,245,533
Parks & Public Works	8,179,757	8,605,455	8,998,083	10,028,853	1,883,739
Non-Departmental	8,432,090	7,274,722	8,666,252	5,552,023	656,329
Community Development	5,009,798	6,315,505	5,365,410	5,390,624	1,047,131
Admin Services	4,730,360	5,441,605	5,302,277	6,061,730	1,351,601
Library Services	2,828,873	2,752,401	3,096,485	3,175,170	742,922
Town Council	192,280	189,569	186,337	184,395	42,162
Town Attorney	537,296	629,935	699,413	771,611	116,387
Total Revenues & Transfers In	\$46,481,290	\$47,750,381	\$50,760,297	\$50,849,664	\$10,085,804

General Fund Salary and Benefits

Expenditures (millions)	FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Actual	FY 2023/24 Adopted Budget	FY 2023/24 Q1 Estimated
Salary	\$ 20.2	\$ 19.8	\$ 21.8	\$ 23.2	\$ 4.7
CalPERS Benefits	6.4	6.4	7.1	8.2	1.8
All Other Benefits	3.7	3.7	3.8	4.7	1.0
OPEB Pay as You Go	1.3	1.4	1.5	1.6	0.5
Total Salaries and Benefits	\$31.6	\$31.3	\$34.2	\$37.7	\$8.0

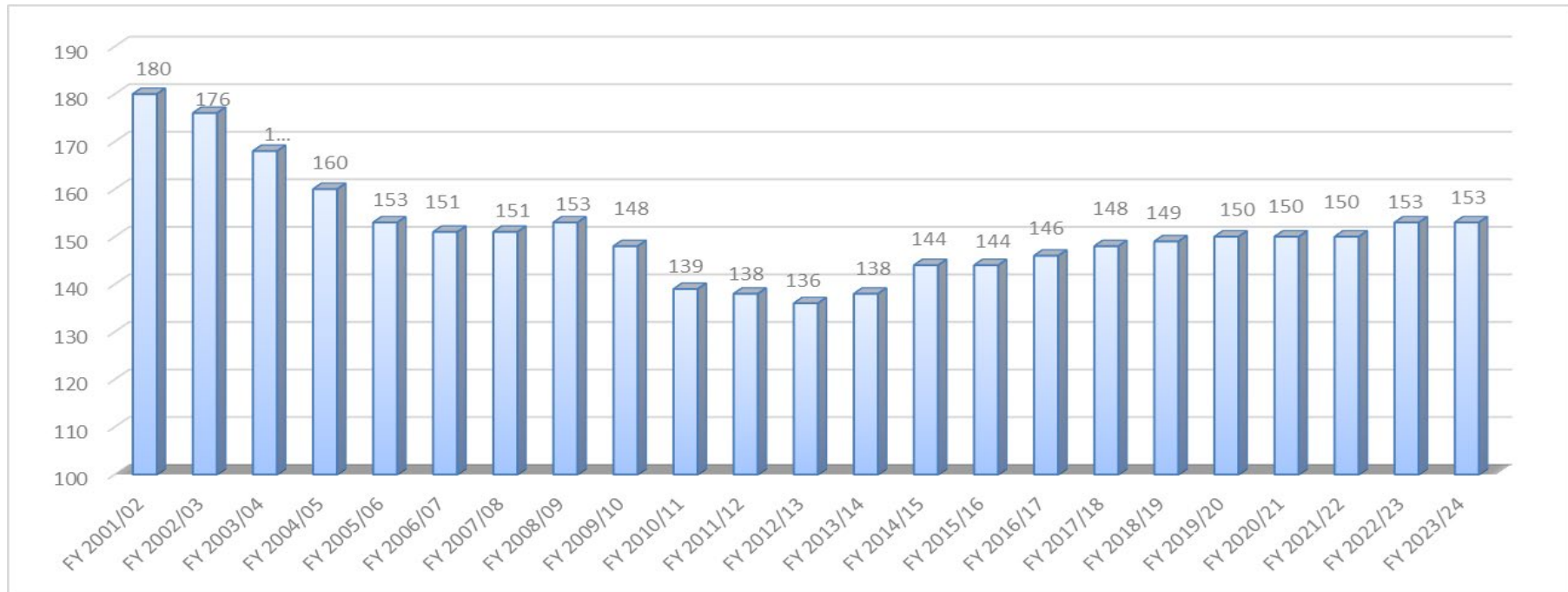
Expenditures (millions)	FY 2015/16 Actual	FY 2016/17 Actual	FY 2017/18 Actual	FY 2018/19 Actual	FY 2019/20 Actual
Salary	\$ 14.5	\$ 14.8	\$ 16.0	\$ 17.9	\$ 19.3
CalPERS Benefits	3.6	3.9	4.3	5.3	6.1
All Other Benefits	3.2	3.2	3.3	3.6	3.6
OPEB Pay as You Go	0.9	1.0	1.1	1.2	1.2
Total Salaries and Benefits	\$22.2	\$22.9	\$24.7	\$28.0	\$30.2

Organizational Staffing

	FY 2020/21 Funded Positions	FY 2021/22 Filled as of 6/30/22	FY 2022/23 Funded Positions	FY 2022/23 Filled as of 6/30/23	FY 2023/24 Adopted Budget
Town Attorney	2	2	2	2	2
Town Manger	5.25	4.25	5.25	5.25	5.25
Human Resources	3	3	3	3	3
Finance	7	7	7	6	7
Clerk	3	3	3	3	3
Information Technology	3	2	3	3	3
Community Development	19.75	19.75	20	19	20
Police Department	60	50	60	53	60
Parks & Public Works	34.75	31.75	36.75	35.75	35.75
Library	12.5	11.5	13.5	13.5	13.5
Total Benefited Positions	150.25	134.25	153.5	143.5	152.5
All Dept Temporary Staff Converted to Hourly	11.09		11.46		10.33
Total Positions	161.34	134.25	164.96	143.5	162.83

Vacancies Tracking																
Department	Position		Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23		
Clerk	Deputy Clerk	Separation	Vacant				Filled									
Admin Services	Emergency Manager - Temp	Separation	Filled	Vacant											Filled	
Admin Services	Finance Manager	Promotion	Vacant							Filled						
Admin Services	Assitant Town Manager	Separation	Filled						Vacant				Filled			
Admin Services	Accountant	Separation	Filled							Vacant					Filled	
Admin Services	HR Analyst	Separation	Filled						Vacant		Filled					
Community Development	Associate Planner	Separation	Filled								Filled					
Community Development	Permit Technician	Retirement	Vacant	Vacant	Filled											
Police	Police Dispatcher	Separation	Filled	Vacant											Filled	
Police	Police Dispatcher	Separation	Vacant				Filled									
Police	Police Dispatcher	Separation	Filled	Vacant												
Police	Police Dispatcher	Separation	Vacant								Filled		Vacant		Filled	
Police	Police Officer	Separation	Vacant				Filled									
Police	Police Officer	Separation	Vacant						Filled							
Police	Police Officer	Retirement	Vacant						Filled							
Police	Police Officer	Retirement	Vacant						Filled							
Police	Police Officer	Separation	Filled	Vacant												
Police	Police Corporal	Separation	Filled						Vacant	Filled						
Police	Police Officer	Promotion	Filled							Vacant						
Police	Police Officer	Separation	Filled							Vacant						
Police	Police Officer	Separation	Filled							Vacant						
Police	Police Officer	Separation	Vacant										Filled			
Police	Administrative Analyst	Separation	Vacant													
Police	Police Record Specialist	Promotion	Vacant	Vacant	Filled											
Police	Police Record Specialist	Separation	Filled	Vacant	Filled											
Parks & Public Works	Parks and Maintenance Worker	Separation	Filled												Vacant	
Parks & Public Works	Senior Civil Engineer	Separation	Vacant				Filled									
Parks & Public Works	Transp and Mob Manager	Separation	Vacant					Filled - Permanent								
Parks & Public Works	Town Engineer	Separation	Filled				Vacant							Filled		
Parks & Public Works	Associate Civil Engineer	Separation	Filled					Vacant								

Organizational Staffing



Potential Headwinds

Updated Sales Tax Forecast

The sales tax estimates used in the Five-Year Forecast for the Adopted FY 2023/24 Budget were prepared by Avenu Insights & Analytics, the Town's sales tax consultant. The sales tax forecast at that time was based on 2022Q4 data (Exhibit A).

Avenu Insights & Analytics has updated its forecast based on 2023Q1 and 2023Q2 data (Exhibit B). The current forecast is lower for all forecast years.

Overall growth rates vary due to the anticipation of when and to what extent inflation may begin to decline. The current forecast incorporates a Recession Inflation Scenario, with the Consumer Price Index for all Urban Customers hitting a target of 2.2% at the end of 2024. Taxable sales for general retail and transportation are expected to see the greatest impacts. Increased interest rates impact business to business activities, while increased mortgage rates leaves customers with less disposable income. In addition, gas service stations are projecting decreased activity due to the popularity of electric vehicles. The most recent forecast also reflects the change of Netflix discontinuing DVD rentals in September 2023.

The following tables illustrate the difference between the most recent forecast (most likely and optimistic scenarios) to the forecast contained in the Adopted Budget.

5 Year Forecast Sales Tax	2023/24 Budget (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
FY 2023/24 Adopted Budget	\$9.2	\$9.4	\$9.8	\$10.1	\$10.4	\$10.7
Based on 2023Q2 Most Likely Scenario	\$8.5	\$8.6	\$8.8	\$8.9	\$9.1	\$9.2
Difference	(\$0.7)	(\$0.8)	(\$1.0)	(\$1.2)	(\$1.3)	(\$1.5)

5 Year Forecast Sales Tax	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
FY 2023/24 Adopted Budget	\$9.2	\$9.4	\$9.8	\$10.1	\$10.4	\$10.7
Based on 2023Q2 Optimistic Scenario	\$9.1	\$9.2	\$9.4	\$9.5	\$9.7	\$9.8
Difference	(\$0.1)	(\$0.2)	(\$0.4)	(\$0.5)	(\$0.7)	(\$0.8)

Potential Headwinds

ERAF Update

Santa Clara County provided an update on the Excess Education Revenue Augmentation Fund (ERAF) at its September property tax meeting. The Third District Court of Appeal has affirmed the Trial Court decision in the California School Boards Association (CSBA) case, ruling that CSBA did not establish that charter schools are entitled to ERAF. In August 2023, the State Controller's Office (SCO) issued a negative audit finding to Marin County regarding inclusion of the redevelopment dissolution revenue in the Excess ERAF calculation, asserting that this violated Health & Safety Code section 34188(d). Excess ERAF counties do not agree with this finding and are currently working to find a resolution.

While the resolution of the CSBA case is favorable, the Controller-Treasurer Office of County of Santa Clara County recommends establishing reserve funds for the at-risk amounts because of the SCO Marin County's audit finding. The County previously conveyed the annual at-risk percentage of 30% and with the recent positive result in the CSBA case, the annual at-risk percentage is now at about 22% of the distribution both on an ongoing basis and going back to the distribution in Fiscal Year 2020/21. The County also informed the municipalities that the State Controller Office still has not provided its calculation methodology, and this percentage could change. The County also provided the updated projection for FY 2023/24 Excess ERAF distribution (\$2,500,000) based on the latest State-released information. The amounts provided are before any provision to account for the State Controller's audit finding or other annual adjustments in the calculation. The County will provide an updated estimated for the FY 2023/24 excess ERAF distribution and estimates for FY 2024/25 excess ERAF distribution in March 2024.

The following table illustrates the potential at-risk amount from FY 2020/21.

	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Actual Excess ERAF Distributed	\$ 2,043,321	\$ 2,371,984	\$ 2,298,692	
Estimated Excess ERAF (11/3/2023)				\$ 2,500,000
30% At Risk	\$ 612,996	\$ 711,595	\$ 689,607	\$ 750,000
22% At Risk	\$ 449,531	\$ 521,836	\$ 505,712	\$ 550,000
Town ERAF Risk Reserve - 30%			\$ 689,607	\$ 750,000

With the adoption of the FY 2023/24 budget, Council directed a 30% ERAF Risk Reserve. The ERAF Risk Reserve is estimated at \$1,439,607 and the at-risk amount from FY 2020/21 is estimated at \$2,027,079.

Los Gatos

Bradley Burns 1% Sales & Use Tax Forecast Comparison Summary

As of 08/16/2023

A Revenue forecast was provided on 03/13/23 based on 2022Q4 Sales Tax data.

A Revenue forecast was provided on 06/28/23 based on 2023Q1 Sales Tax data.

This analysis compares those forecasts.

COMPARISON:

	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29
Previous Forecast	7,125,000	7,684,000	7,876,000	8,128,000	8,410,000	8,685,000	8,950,000	9,207,000
Current Forecast	7,125,000	7,396,000	7,379,000	7,609,000	7,829,000	8,034,000	8,223,000	8,397,000
Change	0	(288,000)	(497,000)	(519,000)	(581,000)	(651,000)	(727,000)	(810,000)
% Change	0.0%	-3.7%	-6.3%	-6.4%	-6.9%	-7.5%	-8.1%	-8.8%

% COMPARISON:

	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29
Previous Forecast	5.9%	7.8%	2.5%	3.2%	3.5%	3.3%	3.1%	2.9%
Current Forecast	5.9%	3.8%	-0.2%	3.1%	2.9%	2.6%	2.4%	2.1%
% Change	0.0%	-4.0%	-2.7%	-0.1%	-0.6%	-0.7%	-0.7%	-0.8%

The current forecast is lower in all forecast years. Overall Growth Rates vary, due to the anticipation when and to what extent inflation will begin to decline.

The current forecast incorporates a Recession Inflation Scenario, with the CPI-U hitting a target of 2.2% at the end of 2024.

Category	FY 21 - 22	FY 22 - 23	FY 23 - 24	FY 24 - 25	
General Retail		(65,000)	(195,000)	(227,500)	Category declined by -12.4% QTR over QTR in 2023Q1, grew by 6.2% in 2022Q4. Miscellaneous Retail, (38% of this category), declined by -11.5% QTR over QTR in 2023Q1 Furniture / Appliance, (23% of this category), declined by -12.8% QTR over QTR in 2023Q1 Drug Stores, (12% of this category), declined by -11.6% QTR over QTR in 2023Q1
Transportation		(70,000)	(210,000)	(245,000)	Category declined by -15.9% QTR over QTR in 2023Q1, grew by +7.6% in 2022Q4. Prices for gasoline have plummeted from \$6.20 in June 2022 to \$4.27 in January 2023. Auto Sales declined by -19.0% QTR over QTR in 2023Q1, grew by +10.7% in 2022Q4.
All		(153,000)	(92,000)	(46,500)	Various other factors, including using a Recession Inflation Scenario with 2.2% target
	\$ -	\$ (288,000)	\$ (497,000)	\$ (519,000)	Total Forecast Change

EXHIBIT A

Los Gatos

Bradley Burns 1% Sales & Use Tax Forecast Comparison Summary

As of 10/16/2023

A Revenue forecast was provided on 06/28/23 based on 2023Q1 Sales Tax data.

A Revenue forecast was provided on 10/13/23 based on 2023Q2 Sales Tax data.

This analysis compares those forecasts.

COMPARISON:

	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30
Previous Forecast	7,396,000	7,379,000	7,609,000	7,829,000	8,034,000	8,223,000	8,397,000	
Current Forecast	7,452,000	7,284,000	7,364,000	7,490,000	7,605,000	7,709,000	7,802,000	7,884,000
Change	56,000	(95,000)	(245,000)	(339,000)	(429,000)	(514,000)	(595,000)	
% Change	0.8%	-1.3%	-3.2%	-4.3%	-5.3%	-6.3%	-7.1%	

% COMPARISON:

	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	FY 26 - 27	FY 27 - 28	FY 28 - 29	FY 29 - 30
Previous Forecast	3.8%	-0.2%	3.1%	2.9%	2.6%	2.4%	2.1%	
Current Forecast	4.6%	-2.3%	1.1%	1.7%	1.5%	1.4%	1.2%	1.1%
% Change	0.8%	-2.0%	-2.0%	-1.2%	-1.1%	-1.0%	-0.9%	

The current forecast is lower in all forecast years. Overall Growth Rates vary, due to the anticipation when and to what extent inflation will begin to decline.

The current forecast incorporates a Recession Inflation Scenario, with the CPI-U hitting a target of 2.2% at the end of 2024.

Category	FY 22 - 23	FY 23 - 24	FY 24 - 25	FY 25 - 26	
General Retail	70,000				Category grew by +9.4% QTR over QTR in 2023Q2, declined by -11.3% in 2023Q1, better than expected. Apple Stores, (23.9% of General Retail), grew by +132.4% QTR over QTR in 2023Q2, by +31.7% in 2023Q1.
Transportation	(30,000)	(75,000)	(100,000)	(160,000)	Category declined by -15.6% QTR over QTR in 2023Q2, -14.8% in 2023Q1. Zero Emission Vehicles (ZEVs) comprised 24.3% of the sales of new light vehicles in CA for the first six months of 2023. Forecast includes a -40% reduction of Service Station Sales Tax Revenues by 2030, -75% reduction by 2035 and a -90% reduction by 2040.
All	16,000	(20,000)	(145,000)	(179,000)	Various other factors
	\$ 56,000	\$ (95,000)	\$ (245,000)	\$ (339,000)	Total Forecast Change



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 12/11/2023

ITEM NO: 9

Item 9.

DATE: December 8, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Conclude Recommendation to the Town Council Regarding the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year

RECOMMENDATION:

Conclude recommendation to the Town Council regarding the Draft Annual Comprehensive Financial Report (ACFR) for the preceding Fiscal Year

BACKGROUND:

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

(a) The Finance Commission shall:

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

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

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

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 3

SUBJECT: Review Draft FY 2022/23 ACFR

DATE: December 8, 2023

DISCUSSION:

On November 27, 2023, the Draft FY 2022/23 Annual Comprehensive Financial Report (ACFR) was posted to the Town's website and the link was provided to the Finance Commission.

Finance Commissioners had an opportunity to submit written questions to staff. All of the questions and comments received from the Commissioners before 11:00 a.m. on December 4th were submitted as an Addendum and Desk Item for the December 4th Special Finance Commission meeting.

At the Finance Commission special meeting on December 4, 2023, the Town's independent auditor and staff addressed the Commissioners' questions and comments. The Finance Commission began to formulate its comments and recommendations to the Town Council. The Commission had a consensus on shortening and streamlining the Management Discussion and Analysis (MD&A).

Staff requested Commissioners to provide any additional comments to Finance Director Gitta Ungvari (gungvari@losgatosca.gov) by closing of the business day on December 6, 2023. One set of additional comments were received (Attachment 1).

The redlined draft ACFR (Attachment 2) includes corrections of typos, clarifying language, additional details in schedules, summary presentation, graphs, and elimination of text based on Commissioners' comments. The redlined ACFR balances requests for more information with brevity. Staff will update the Table of Contents after the document is finalized.

The Town Manager's responses to Commissioners' questions and comments are included Attachment 3. The questions and comments are organized by the following categories:

- General comments;
- Suggestions for modifying the presentation and correcting typographical errors;
- Requests for additional information regarding Town Finances; and
- Additional detailed questions and comments.

While Commissioners wanted a more simplified presentation, there were additional questions raised regarding Town finances. In particular, there was an interest to normalize the data and the auditor suggested that a separate document would be more appropriate than the ACFR. Detailed information regarding Town Finances, Pension and Other Post-Employment Benefits, Financial Policies, and the Forecast is available in the Town's Adopted Budget and other Town reports.

PAGE 3 OF 3

SUBJECT: Review Draft FY 2022/23 ACFR

DATE: December 8, 2023

CONCLUSION AND NEXT STEPS:

At the conclusion of the regular Finance Commission meeting on December 11th, the Finance Commission is expected to provide the Town Manager with its final comments and recommendations to be transmitted to the Town Council for its December 19, 2023 meeting.

In addition, staff recommends that Finance Commission include in its 2024 workplan a discussion of the format and level of detail in the Management Discussion and Analysis (MD&A) to further improve the presentation for next ACFR. Given other time sensitive items coming to the Commission, staff suggests the March 2024 meeting.

Attachments:

1. Commissioners Communications after the December 4th Special Meeting and before 11:00 a.m. on December 8, 2023
2. Redlined Draft FY 2022/23 Annual Comprehensive Financial Report
3. Town Manager's Responses to Commissioners' Questions and Comments

From: [Phil Koen](#)
To: [Gitta Ungvari](#); [Wendy Wood](#)
Cc: [Laurel Prevetti](#)
Subject: Additional comment on the ACFR
Date: Tuesday, December 5, 2023 7:53:40 PM
Attachments: [Comments of the FY 23 ACFR.docx](#)

[EXTERNAL SENDER]

Gitta,

Attached are my additional comments on the ACFR for your review and consideration.

Phil

Comments on the FY 23 ACFR

The discussion at last night's FC was constructive and hopefully provided sufficient clarity for the Staff to revise the current draft. Let me try and summarize the major discussion points and recommendations that I heard. Please note I do not speak for the FC and no one on the FC has reviewed my work product. These are solely my own thoughts to help Staff.

Transmittal Letter

- Confirm the trend in economically sensitive revenue items including Sales Tax, TOT tax and Property Taxes is accurate. FY 23 results are showing strong recovery and in total exceed FY 21 levels (low point) and FY 19 levels (pre-pandemic).
- Discuss more fully what actions were taken in FY 23 to address rising pension contributions (an element of pension expense) and increasing unfunded pension liabilities. Transmittal letter is confusing regarding actions taken in FY 23 vs prior periods.
- The mention of "revenue constraints" is confusing in that FY 23 General Fund revenues exceeded General Fund Expenditures and resulted in a \$5.7m surplus.
- For sake of clarity, provide an example of an unfunded federal or state mandate that is driving cost increases.

Management Discussion and Analysis

The goal of this section is to provide objective and easily readable analysis of the government's financial activities based on current known facts, decisions, or conditions. The section needs to be simplified and the explanations made more. The explanations are complex and too detail.

- Staff should consider including more graphs as a basis for explanation (less text) such as the ones provided by the Auditor.
- Staff should consider showing only two years comparison (FY 23 and FY 22) since FY 21 is not presented in the financial statements.
- Staff should highlight the good news story that revenues exceeded operating expenditures and there was an operating surplus for both FY 23 and FY 22.
- Staff should discuss in a revenue comment and a separate expenditure comment for both the government wide financial activities analysis and for the general fund analysis, all one-time revenue and expense items that are materially impacting year over year comparisons. The objective is to present on a "pro-forma" basis normalized total revenues and normalized total expenditures so the reader can easily understand underlying operating revenue and expenditure trends. The number of onetime events in just FY 22 is material. A partial list includes:
 - Fire Safety pass through grant - \$6.9mm
 - ARPA revenues - \$3.6m
 - Pensions expense and OPEB credits - \$4.4m
 - Mark to market adjustments – (\$1.6m)
 - Expensing affordable housing loan - \$1.2m
 - Pass through developer contributions - \$1.1m

- Total impact on all salary adjustments - ?
- Staff should provide more information regarding the legal settlement of \$1,565,000. This could be done in the litigation footnote.
- A special revenue fund for BMP Housing Program In-Lieu fee should be established given the current balance (\$3.7m) and the fact that the funds are restricted for BMP Housing Program activities. Additionally, there are numerous Housing Element programs that are planned to be funded from the BMP fees as outlined in the adopted Housing Element.
- The discussion of general fund budgetary highlights needs to be rewritten to make it more easily understood and to discuss variances from the original adopted budget and the final budget. This section is critical in that it provides the reader the necessary information to assess the Town's ability to estimate and manage general fund resources throughout the year. The magnitude of change from the adopted budget to actuals is material. For example, the original adopted budget planned for an ending GF Balance of \$19,493,386. The actual ending balance was \$29,528,304 or 52% greater. Why did this occur ? A partial explanation is during the year the Town Council approved additional expenditures of \$2,850,676 increasing the budget to \$50,204,894 presumably for additionally needed services. However, actual expenditures were \$44,890,847 or a total of \$5,314,047 (11%) less. This reduction in planned expenditures was a major component in increasing the general fund balance. But was this reduction a "savings" in the sense the Town was more productive or was it a "reduction in service levels" in that planned services were not delivered? This is not explained. A thoughtful analysis of budget vs actuals will address a subtle "theme" that seemingly weaves through the ACFR that there is some type of "imbalance between revenues and expenditures". This is stated a few times in the ACFR in different areas. And yet the actual results do not support this conclusion.
- The economic factors and next year's budget should be shortened and rewritten as well. Most importantly the section should provide up to date information regarding current facts as known. For example, SCC Assessor's Office has released the FY 2023 net assessment roll for Los Gatos which increased 7.72% from the prior year. In addition, the SCC Finance Agency has published revenue estimates for property taxes (including ERAF and VLF) which forecast a 6.7% growth over prior year. These would suggest that the Town's property taxes will be higher than the FY 24 budget which was built on a 3.6% growth. This is good news and should be disclosed.
- There should also be a discussion of the future pension expense (or pension contributions) as a result of the increased unfunded pension liability. It is clear – pension contributions are materially increasing unless action is taken. With the GF balance ending over \$10m greater than what was originally planned, perhaps the Town should consider making additional ADPs like those made in FY 20 and FY 21.

That summarizes the major discussion items. I will now provide new comments on the financial statements and footnotes to the financials.

Financial Statements

Governmental Funds – Balance Sheet

- ERAF Risk – what is the basis of accounting for creating an assigned fund reserve in the General Fund for ERAF risk as opposed to a liability for claim or judgment? Does the risk not rise to the level of being probable or reasonably estimated?

Footnotes

- Footnote 1 – Basis of Accounting – consider adding a paragraph which discusses claims and judgments. Disclose how the Town accounts for material claims and judgments and associated legal and administrative costs when it is probable that the liability claim has been incurred and the amount of the loss can be reasonably estimated. Disclose where (which fund) the Town records estimated loss liabilities, including a) known loss events expected to be presented as claims later, b) unknown loss events that are expected to be claims and c) expected future development on claims are ready reported.
- Footnote 2 – should the BMP funds be included in Restricted Cash and Investments?
- Footnote 10 – Please explain the addition and deletion accounting for ERAF Risk. Why is \$2,298,692 shown as an addition to fund balance? Was \$2,298,692 recorded as General Fund Revenue – Property Tax? (Please see ERAF Risk comment above). Discuss why the Town does not have an unassigned fund balance to fund unplanned expenditures. Historically the Town has used the Capital/Special Projects assigned fund balance to cover unplanned expenditures.
- Footnote 11 – is the notation “for the year ended June 20, 2023, pension expense for each plan ...” correct? Should this say pension contribution?
- Footnote 14 – Litigation – discuss the litigation settlement of \$1,565,000 and that it was recorded in the Appropriated Reserve Fund. Discuss the ERAF set aside for potential settlement of lawsuit between the State and the School districts.
- Footnote 16 – Covid – please disclose in detail which funds the FY 23 ARPA revenue of \$3.6m was transferred to. Please also disclose for FY 22 ARPA revenue of \$3.4m which funds the money was transferred to.

I want to thank Staff for the countless hours they have spent in preparing the ACFR. Please let me know if you have any questions on the comments above.

Phil Koen

From: [Phil Koen](#)
To: [Gitta Ungvari](#); [Wendy Wood](#)
Cc: [Laurel Prevetti](#)
Subject: Pages from los_altos_fy22_acfr-final.pdf - FC discussion item
Date: Friday, December 8, 2023 7:55:32 AM
Attachments: [Pages from los_altos_fy22_acfr-final.pdf](#)

[EXTERNAL SENDER]

Gitta,

I have attached the MD&A section from the City of Los Altos FY 22 ACFR. I think it is well done and effectively discusses the City's financials. As you think about re-drafting the Town's MD&A, you might look at Los Altos for thoughts and guidance. It isn't a perfect fit, but it provides a good template.

I hope this helps.

Phil



City of Los Altos Annual Comprehensive Financial Report

Fiscal Year Ended June 30, 2022

City of Los Altos

Management's Discussion and Analysis

For the year ended June 30, 2022

As management of the City of Los Altos (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2022, in accordance with standards established by the Governmental Accounting Standards Board. We encourage readers to consider the information presented here, in conjunction with the additional information furnished in the Letter of Transmittal, which can be found in the preceding introductory section of this report, and with the City's basic financial statements and accompanying notes to those financial statements.

USING THIS ANNUAL REPORT

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements, which are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Reporting on the City as a Whole

Government-wide Financial Statements: The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner similar to a private sector business.

The *statement of net position* presents information on all City assets, deferred outflows of resources, liability, and deferred inflows of resources, with the difference between the assets plus deferred outflows of resources and liability plus deferred inflows of resources as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents how the City'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).

The government-wide financial statements distinguish functions of the City 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 activities*). The governmental activities of the City include general government, public safety, maintenance, and public works services, planning, building, engineering, and recreation. The City's business-type activities include sewer, solid waste, and storm drain.

The government-wide financial statements can be found on pages 27 to 31 of this report.

Reporting on the City's Most Significant Funds

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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City's funds can be divided into three categories: governmental funds; proprietary funds; and fiduciary funds.

City of Los Altos
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For the year ended June 30, 2022

Notes to the Basic Financial Statements. The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required and other supplementary information, such as budgetary comparison information relating to the City's General Fund. The report added major special revenue fund, the schedule of changes in the City's net pension liability for the miscellaneous plan, the schedule of the City's proportionate share of the safety cost-sharing plan and the schedules of the City's pension contributions to each plan. This information is intended to furnish additional detail to support the basic financial statements.

Governmental Funds: *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains 22 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, In-Lieu Park Land Special Revenue Fund, and Capital Project Fund, each of which are major funds. Data from the other 19 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these *non-major* governmental funds is provided in the form of *combining statements* elsewhere in the fund financial statements section of this report.

The City adopts a budget annually for the General Fund, Special Revenue Funds, (except for the Storm Drain Deposits Fund), and Equipment Replacement Capital Projects Fund that is effective July 1 for the ensuing fiscal year. A budgetary comparison statement has been provided for several key governmental funds.

The basic governmental fund financial statements can be found on pages 33 to 37 of this report.

Proprietary Funds: The City maintains two types of *proprietary funds*. Services for which the City charges customers a fee are generally reported in the City's *enterprise funds*. These proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its City dental plan and unemployment insurance, as well as Workers' Compensation and Liability Insurance costs. Because these services predominantly benefit the governmental function, they have been included in the government-wide financial statements and, accordingly, the related intra-fund charges have been eliminated.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Proprietary fund financial statements provide the same type of information as the government-wide financial statements, only in more detail. All four internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The City's three enterprise funds (Sewer, Solid Waste and Storm Drain) are considered major funds and are presented as such in the fund financial statements. The City follows the practice of adopting annual budgets for these operations as well.

The combining statements referred to earlier in relation to non-major governmental funds, proprietary and internal service funds, are presented immediately following the notes to the financial statements. Combining and individual fund statements and schedules can be found on pages 109 to 119 of this report.

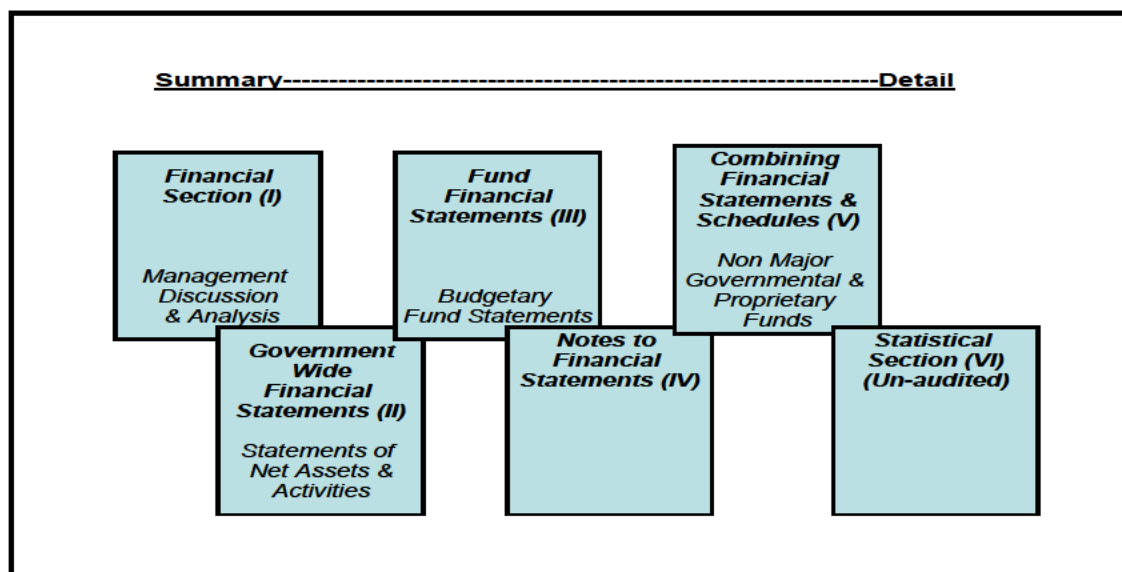
Notes to the Basic Financial Statements: The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These can be found on pages 47 to 91 of this report.

Other Information: In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's budget-to-actual financial comparisons for the General Fund. The City has elected to present this information within the basic financial statement and financial statement sections of the report.

The City as Trustee

Fiduciary Funds: The City is the trustee, or fiduciary, for the North County Library Authority (NCLA) and one special assessment districts –Blue Oak Sewer Lane improvements. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

In summary, the various sections of this financial report are arranged as follows:



City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

FINANCIAL HIGHLIGHTS

Financial highlights for the year ended June 30, 2022, include the following:

The City ended its fiscal year on a government-wide basis with total revenues of \$67.3 million, which was an increase of \$5.8 million or 9.5% compared to the prior year, and total expenses of \$68.5 million, an increase of \$18.5 million or 37.0%. The results represent combined government and business operations, with an overall decrease in net position of \$1.2 million primarily due to a one-time \$6.5 million elective contribution to CalPERS, increased salary, benefits, and inflationary pressure on the supply chain. The payments to CalPERS will provide long-term stability to the City's pension costs and future liabilities. (See tables 2 and 5 for additional information).

Operational revenue gains were predominantly in Community Development and recreation activities. Sales tax, utility tax, and hotel occupancy tax have gradually recovered to pre-pandemic levels and have exceeded the projected budget. Property tax increased by \$1.7 million. Sewer revenues increased by \$1.2 million as projected, and solid waste revenues were stable and positioned to facilitate future operational and capital needs.

The increase in Government-wide expenses is the result of salary and benefit adjustments and using consultants and overtime to address existing staff vacancies. Expense increases also reflect inflation caused by supply chain shortages related to COVID-19. Resource use continues to reflect an emphasis on public safety, infrastructure maintenance, quality of life, and community development activity.

The General Fund reported an operating surplus of \$1.6 million before transfers in/(out). The General Fund transferred funds to the Capital Projects Fund to support the rehabilitation and replacement of City's infrastructure.

General Fund revenues increased to \$52.0 million, up \$3.6 million from the prior year's \$48.4 million. Expenditure increased to \$50.4 million, up \$9.5 million from prior year's \$40.9 million.

General Fund unassigned/unrestricted fund balance for the current year totaled \$9.1 million, an increase of \$4.2 million or 85.7% when compared to prior year reported at \$4.9 million. The unassigned fund balance represents 18% of General Fund expenditures. The Government Finance Officers Association guidelines state that General Fund reserves should be 10% to 25%. The City of Los Altos ended the fiscal year 2022 on a healthy reserve balance for general services.

Other Post-Employment Benefits (OPEB) liabilities for the City of Los Altos decreased by \$0.8 million in the current fiscal year. The primary reason for the decrease in OPEB liabilities is due to an investment return of approximately \$545,000. The funding status for the OPEB liabilities increased from 54.9% in fiscal year 2021 to 76.4% in fiscal year 2022. The OPEB funding status is above average when compared to most agencies in the State of California.

Net Pension Liability for the City of Los Altos decreased by \$14.8 million to \$27.7 million when compared to prior year reported at \$42.4 million. The decrease is mostly attributable to the 21.3% investment earnings from California Public Employees' Retirement System (CalPERS). It is important to note that in fiscal year 2023, the City expects to experience a loss based on the July 20, 2022, news release by CalPERS. CalPERS announced a preliminary -6.1% net return on investments for the 12-month period that ended June 30, 2022.

The City made significant progress on many capital improvement initiatives, which include maintenance and street resurfacing, streetscape and intersection improvements, and pedestrian and traffic safety

City of Los Altos

Management's Discussion and Analysis, Continued

For the year ended June 30, 2022

enhancements throughout the City. The City has also made significant capital investments in the maintenance and improvement of the City-wide sewer systems.

Government-Wide View

This section focuses on the net assets and changes in net assets of the City's governmental activities and business-type activities presented in the Government-wide Statement of Net Position and Statement of Activities. Changes in net position may serve over time as a beneficial indicator of the City's financial position.

- City total assets increased by \$3.6 million to \$202.1 million, of which \$170.1 million represented governmental assets and \$32.1 million represented business-type assets.
- City total liabilities decreased by \$20.0 million to \$48.9 million, of which \$47.5 million were governmental liabilities and \$1.4 million were business-type liabilities.
- City total deferred outflows of resources related to its pension and OPEB obligations increased by \$3.7 million to \$13.5 million, of which \$12.8 million represented governmental deferred outflows and \$0.7 million were business-type deferred outflows.
- City total deferred inflows of resources related to the lease, pension, and OPEB increased by \$28.4 million to \$30.1 million, of which \$29.0 million represented governmental deferred inflows and \$1.1 million were business-type deferred inflows.
- City net position decreased by \$1.2 million to \$136.7 million, unrestricted net position increased \$6.3 million to \$10.1 million from \$3.8 million, of which -\$4.9 million represented governmental unrestricted net positions \$14.9 million were business type.
- Total government-wide revenues were \$67.3 million, an increase of \$5.8 million from the prior year's \$61.5 million. The City's governmental activities generated \$58.5 million in revenue, while the business-type activities generated \$8.8 million in revenue.
- Total government-wide expenses were \$68.5 million, an increase of \$18.5 million from the prior year's \$50.0 million. The City's governmental activities reported \$60.5 million in expenses, while the business-type activities reported \$8.0 million in expenses.
- Total governmental fund revenues increased \$5.1 million to \$58.5 million. Total governmental fund expenditures decreased to \$60.5 million in fiscal year 2021-22, a decrease of \$16.3 million from the prior year's \$44.2 million.
- As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Los Altos, the governmental activities total assets exceeded liabilities by \$106.4 million as of June 30, 2022, and \$107.7 million as of June 30, 2021. The net assets for governmental activities decreased by a total of \$1.3 million when compared to prior year.
- Recorded capital assets, including infrastructure, represent only a portion of the City's non-business-type assets. Of the total net assets, \$96.9 million is invested in capital assets, net of related debt, in the current year and \$95.5 million in fiscal year 2021.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Fund Level View

- The General Fund realized an operating surplus of \$1.6 million. Revenue surplus came from property tax \$1.6 million, other taxes \$1.3 million, sales tax \$0.7 million, and charge for services \$0.7 million. These increases were offset by reduced interest and rental income \$1.1 million.
- Total governmental fund balances equaled \$46.3 million at fiscal year-end, a slight increase from prior year's fund balance of \$46.2 million.
- General government capital spending totaled \$6.7 million. The level of capital reinvestment in Los Altos reflects a sustained focus on the maintenance of streets, facilities, traffic calming efforts, and safety. The Capital Improvements Projects Fund balance increased by \$0.3 million from \$11.5 million in fiscal year 2021 \$11.8 million due to the transfer of a part of the unassigned general fund balance from the prior year to the end of the year.
- The In Lieu Park Land Fund ended the year with a fund balance of \$8.4 million with revenues of \$3.5 million with expenditures and transfers out of \$1.0 million spent on eligible projects and debt service payments.
- The Gas Tax Fund balance increased by \$0.2 million to \$1.8 million after funds were used for capital projects, including surplus revenue for the year.
- Sewer operations ended the year favorably with a net position of \$25.1 million. Operating expenses increased by \$1.6 million from \$5.3 million in fiscal year 2021 to \$6.9 million because of the planned activity to system maintenance.
- Solid waste operations ended the year favorably in net position of \$5.2 million. Operating expenses increased by \$0.7 million from \$0.4 million in fiscal year 2021 to \$1.1 million.
- As in the prior year, the Storm Drain Fund has been exhausted. These operations are now funded by the General Fund and will continue to be so unless and until a fee-based model is implemented.
- The Workers' Compensation Fund ended the year with an unrestricted net position of \$1.3 million, a decrease of \$0.3 million compared to prior year's \$1.6 million due to claim activity and not providing additional funding.
- The General Liability Fund ended the year with a small negative balance in unrestricted net position, a decrease of \$0.3 million compared to the prior year's balance.
- Other Non-Major Governmental Funds ended the year with a total combined fund balance of \$6.5 million, an increase of \$0.3 million from \$6.2 million in fiscal year 2021.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

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GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on the net position and changes in net position at the City-wide level as presented in the statement of net position and statement of activities which are summarized in the tables below as of June 30, 2022.

As noted earlier, the net position represents the difference between assets, the deferred outflow of resources and liabilities, and the deferred inflow of resources of the City's governmental activities and may over time serve as a useful indicator of the City's financial position. The City's governmental activities, assets, and deferred outflows exceeded liabilities and deferred inflows by \$106.4 million on June 30, 2022. Table 1 summarizes the City's governmental wide activities net position.

Restricted net assets of \$14.4 million account for approximately 13.6% of the total net assets in the current year, which were \$24.0 million in FISCAL YEAR 2021. The total restricted assets decreased by \$9.6 million or 39.9% when compared to prior year. The decrease in restricted assets is primarily due to significant investments made by the City to improve the City's infrastructure.

Table 1
Governmental Wide Activities Statement of Net Position (In Millions)

	Governmental Activities		Business- Type Activities	
	2022	2021	2022	2021
Cash and investments	\$ 49.2	\$ 50.8	\$ 16.5	\$ 17.0
Other assets	7.3	9.8	0.3	0.4
Capital assets	113.5	105.8	15.4	14.7
Total assets	170.1	166.4	32.1	32.1
Deferred outflows of resources	12.8	9.5	0.7	0.4
Current liabilities	5.5	10.0	0.2	0.4
Non-current liabilities	42.0	56.7	1.2	1.8
Total liabilities	47.5	66.7	1.4	2.2
Deferred inflows of resources	29.0	1.5	1.1	0.1
Net Position				
Net investment in capital assets	96.9	95.5	15.4	14.7
Restricted	14.4	24.0	0.0	0.0
Unrestricted	(4.9)	(11.8)	14.9	15.5
Total net position	\$ 106.4	\$ 107.7	\$ 30.3	\$ 30.2

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Governmental Activities

Of the governmental activities total net position, \$96.9 million, or 91.0%, reflects its net investment in capital assets (e.g., land, infrastructure, buildings, and equipment). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

The governmental activities total Assets of \$170.1 million represent a \$3.6 million or a 2.2% increase, driven by higher receipts, capital activity, and lower spending due to the pandemic.

Capital Assets (net) increased by \$7.7 million or 7.2% compared to prior year primarily driven by additions from capital projects activity in the current year.

The governmental activities, total liabilities of \$47.5 million represent outstanding obligations for operations, capital projects, deposits held for development projects, long-term debt, and net pension liability. A portion of the governmental activities net position represents resources that are subject to restriction on how they may be used. Total liabilities decreased by \$19.1 million or 28.7%.

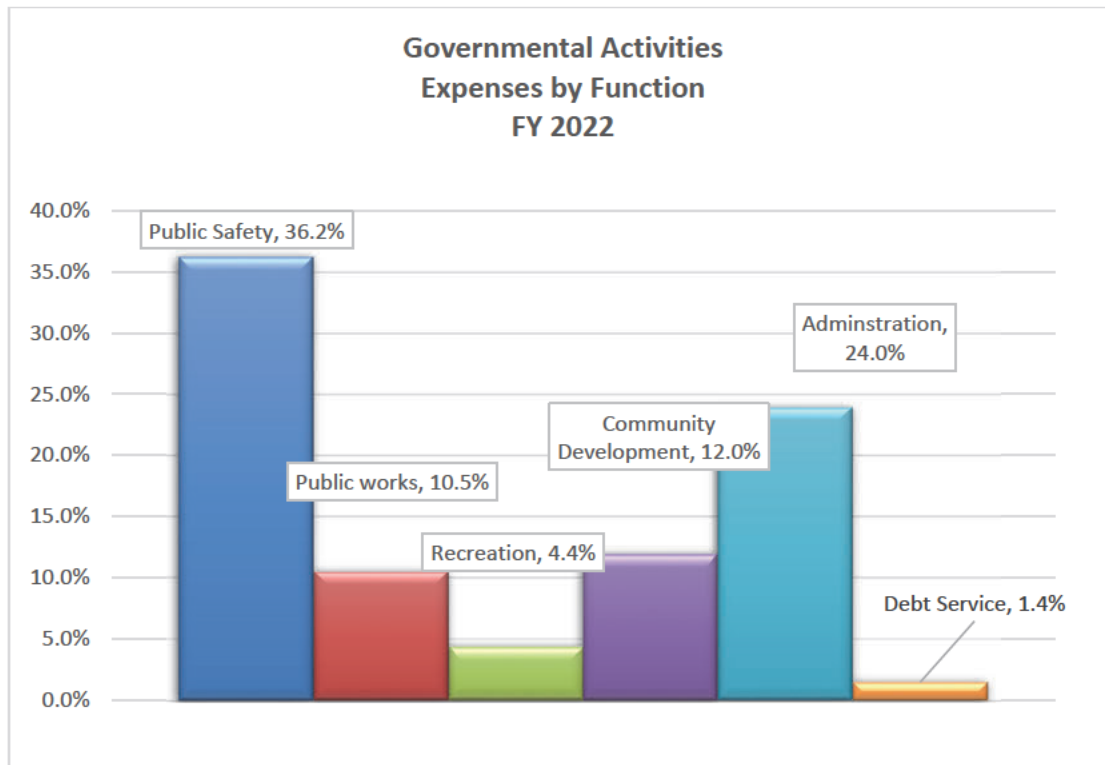
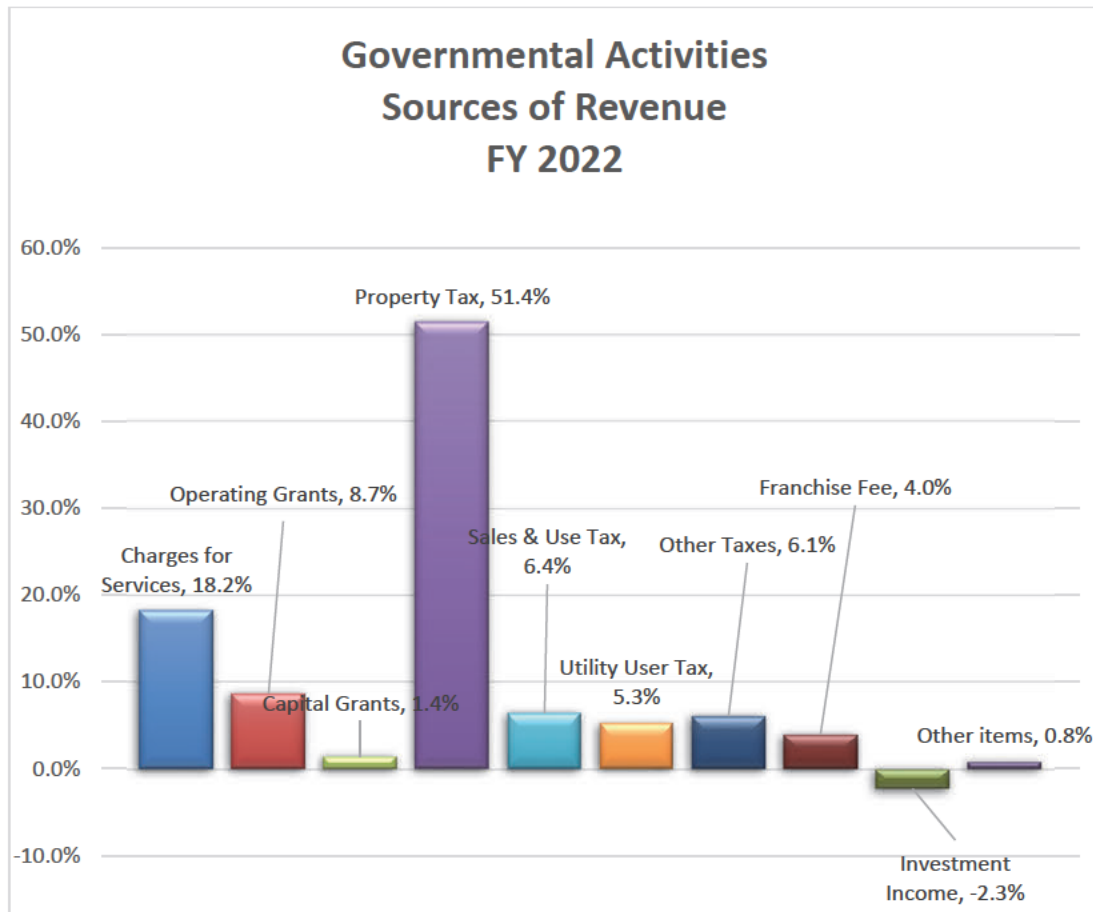
The governmental activities deferred outflows of resources and deferred inflows of resources are related to the lease, pension and OPEB obligations. The total deferred outflows of resources increased \$3.4 million, and deferred inflows of resources increased \$27.5 million compared to the prior year.

The following charts summarize governmental activities programs and general City revenues available for funding all City programs and major expense program categories.

For the fiscal year ended June 30, 2022, total revenues from all sources relating to governmental activities excluding transfers were \$58.5 million, and total expenses for all City programs relating to governmental activities were \$60.5 million.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

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City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

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TABLE 2
Change in Net Position - Governmental Activities
(In Millions)

Revenues	2022	2021
Program revenues		
	\$	\$
Charges for service	10.7	7.3
Operating contributions and grants	5.1	4.8
Capital grants	0.8	1.8
Total program revenues	16.6	13.9
General revenues		
Taxes:		
Property	30.1	28.4
Sales and use	3.7	3.0
Utility User	3.1	2.9
Other taxes	3.5	2.3
Franchise fees	2.3	2.2
Investment income	(1.3)	0.2
Other	0.5	0.4
Total general revenues	41.9	39.5
Total revenues	58.5	53.4
Expenses		
Public Safety	23.8	21.4
Public works	11.5	4.7
Recreation	2.9	2.6
Community Development	7.6	7.0
Administration / Finance	14.3	8.3
Interest on Long Term Debt	0.3	0.2
Total expenses	60.5	44.2
Excess (deficiency) before transfers	(2.0)	9.1
Transfers (Net)	0.7	(2.8)
Change in net position - Governmental Activities	(1.3)	6.3
Net Position - Beginning of year	107.7	101.4
	\$	\$
Net Position - End of year	106.4	107.7

Table 2 shows that governmental activities expenses, which totaled \$60.5 million, were lower than program revenues for governmental activities of \$58.5 million. These program revenues included \$10.7 million in charges for services, \$5.1 million in operating grants and contributions, and \$0.8 million in capital grants and contributions.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Governmental Fund Revenues

Charges for services include traffic safety fines, plan check fees, building inspection fees, other charges related to new construction, and fees charged for recreational activities and programs; these charges increased by \$3.4 million or 46.4% primarily due to the community development activity and recreation programs being robust during the year.

Operating grants and contributions include amounts contributed by developers and pandemic-related stimulus funds received from the federal government. Those funds are restricted to either grant requirements, or have been designated for one-time expenses, while capital grants and contributions are required to fund capital investments. General revenues, as shown in Table 2 on the previous page, are available to pay for expenses not fully covered by program-generated revenues. During the year the City was granted \$5.1 million in operating grants including the receipt of federal ARPA monies, while capital grants awarded decreased to \$0.8 million from \$1.8 million in fiscal year 2021 due to the impact of the pandemic.

Governmental Fund Expenditures

Public Safety expenditures increased by \$2.4 million or 11.4% from the prior year. This increase is primarily due to higher pension costs from the City's share of the Safety pension pool and higher depreciation charges and fire service contract costs, partly offset by vacant positions that decreased other personnel and benefit costs.

Public works expenditures increased by \$6.8 million (144.6%) compared to the prior year primarily due to consultants filling vacant positions as well as higher operating and maintenance expenses due to inflation.

Community Development expenditures increased \$0.6 million or 9.1% from the prior fiscal year primarily attributable to larger expenses in the housing element and increased community development activity.

Recreation expenditures were \$0.3 million (13.2%) more than the prior year primarily due to an overall increase in operations and facilities costs, including costs related to the opening of the new community center.

Administration and Finance expenditures increased by \$6.0 million (71.9%) compared to the prior year primarily due to a one-time elective contribution of \$6.5 million to CalPERS and OPEB.

Table 3
Governmental Activities
Program Revenues and Net (Expense) Revenue From Services
(In Millions)

	Program Revenues		Net (Expense) Revenue	
	2022	2021	2022	2021
Public Safety	\$ 5.1	\$ 4.3	\$ (18.8)	\$ (17.0)
Public works	1.3	2.2	(10.2)	(2.5)
Recreation	1.1	0.3	(1.8)	(2.3)
Community Development	9.1	6.1	1.4	(0.9)
Administration / Finance	0.0	1.0	(14.2)	(7.4)
Interest on Long Term Debt			(0.3)	(0.2)
Totals	\$ 16.6	\$ 13.9	\$ (43.9)	\$ (30.3)

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Business-Type Activities

As shown in Table 4 below, the net position of the City's business-type activities was \$30.3 million on June 30, 2022. Assets totaling \$32.1 million included a total of \$16.5 million in cash and investments, \$0.3 in receivables and other assets, and \$15.4 million in capital assets. Liabilities totaled \$1.4 million including \$0.2 million in current liabilities and \$1.2 million in non-current liabilities such as compensated absences and other liabilities.

Table 4
Business - Type Activities Statement of Net Position
(In Millions)

	<u>2022</u>	<u>2021</u>
Cash and investments	\$ 16.5	\$ 17.0
Other assets	0.3	0.4
Capital assets	15.4	14.7
Total assets	<u>32.1</u>	<u>32.1</u>
 Deferred outflows of resources	 <u>0.7</u>	 <u>0.4</u>
 Current liabilities	0.2	0.4
Non-current liabilities	1.2	1.8
Total liabilities	<u>1.4</u>	<u>2.2</u>
 Deferred inflows of resources	 <u>1.1</u>	 <u>0.1</u>
 Net Position		
Net investment in capital assets	15.4	14.7
Restricted	0.0	0.0
Unrestricted	14.9	15.5
Total net position	<u>\$ 30.3</u>	<u>\$ 30.2</u>

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

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Table 5 shows that Business type activities expenses, which totaled \$8.0 million, were augmented by revenues of \$8.8 million. These revenues included \$9.2 million in charges for services and a \$0.4 million reduction in interest earnings, and others, thus adding \$0.1 million to the net position at the end of the year.

Table 5
Change in Net Position - Business-type Activities
(In Millions)

	<u>2022</u>	<u>2021</u>
Revenues		
Program revenues		
Charges for services	\$ 9.2	\$ 8.0
Total program revenues	<u>9.2</u>	<u>8.0</u>
General revenues		
Investment income and other	<u>(0.4)</u>	<u>0.1</u>
Total revenues	<u>8.8</u>	<u>8.1</u>
Expenses		
Outside Services	5.7	4.4
Employee services	2.0	0.9
Depreciation	<u>0.3</u>	<u>0.4</u>
Total expenses	<u>8.0</u>	<u>5.7</u>
Excess (deficiency) before transfers	<u>0.8</u>	<u>2.4</u>
Transfers	<u>(0.7)</u>	<u>0.0</u>
	<u>0.1</u>	<u>2.4</u>
Change in net position - Business-type Activities		
Net Position - Beginning of year	30.2	27.8
Net Position - End of year	<u>\$ 30.3</u>	<u>\$ 30.2</u>

The Joint Sewer System Authority (JSSA) formed in 1968 by a joint exercise of powers among the Cities of Palo Alto, Mountain View, and Los Altos, constructed, maintains, and operates sewage treatment facilities serving its member cities. The City of Palo Alto acts as administrator for JSSA and bills each member its share of the operating costs. Los Altos is obligated through the year 2022 under an operating agreement with the City of Palo Alto for the water treatment plant and sewer services. Payments under this agreement are based on expected usage and are adjusted annually based on actual use and site operating costs.

As projected in budgetary estimates and the prior year's financial reports, the Storm Drain fund has exhausted its reserves. Currently, the Storm Drain and Urban Runoff Pollution Control Programs (URPP) are categorized as enterprise activities but lack a fee that pays for these services.

City of Los Altos
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For the year ended June 30, 2022

FUND FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

These statements provide more detailed information about the City's major funds. 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 City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a City's or government agency's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City has several governmental funds, of which three are considered major funds for presentation purposes. Each major fund is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance. The City's three major funds are - the General Fund, the In Lieu Parkland Fund, and the Capital Investment Program Fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The City Council adopts a biennial appropriated budget for its General Fund and other funds. Budgetary comparison statements have been provided in the Required Supplementary Information section for the general fund and major special revenue funds that demonstrate compliance with their budgets.

Proprietary funds

The City maintains two types of proprietary funds: Enterprise Funds and Internal Service Funds. Enterprise funds are used to report the same functions presented as business-type activities in government-wide financial statements. The City uses enterprise funds to account for its Sewer, Solid Waste, and Storm Drain operations, all of which are classified as major funds in the City's Statement of Net Position. Internal service funds are used to accumulate and allocate costs internally among the City's various functions and to build up reserves for future liabilities related to the workforce. The City uses internal service funds to account for such activities as dental reimbursements, Unemployment Insurance, Workers' compensation, and liability insurance. Because these services solely benefit the governmental function, they have been included within governmental activities in the government-wide financial statements.

Proprietary fund financial statements provide the same type of information as government-wide financial statements, only in more detail. All nine internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements in the Supplemental Information section of this report.

City of Los Altos
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Fiduciary Funds

The City is the agent for certain agencies and assessment districts, holding amounts collected that await payment as directed. The City's fiduciary activities are reported in the separate Statement of Fiduciary Net Position. These activities are excluded from the City's other financial statements because the City is acting as a trustee for these funds and cannot use these assets to finance its own operations. The City's fiduciary funds include The North Country Library Authority, and the Blue Oak Lane Sewer special district.

Summary Analysis of Governmental Funds

On June 30, 2022, the City's governmental fund balances were \$46.3 million, which is an overall increase of \$0.1 million, or 0.2 %, as compared to the prior fiscal year. The following describes the specifics related to this increase:

- A decrease of \$3.1 million in the General Fund fund balance, primarily due to the transfer of \$6.5 million as an elective additional payment to CalPERS and OPEB.
- The In-lieu Park Land fund had higher revenues from development activity of \$3.5 million that were offset by transfers to the Capital projects fund for eligible projects and debt service payments related to the community center and the 2004 general obligation bond of \$1.0 million.
- An increase of \$0.4 million in the capital projects funds was due to increased transfers from the general fund and the facilities reserve to fund capital projects such as facilities maintenance and construction of the Community Center.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Item 9.

Table 6
Statement of Revenues, Expenditures and Other Financing Sources/Uses
Governmental Funds
(In Millions)

Revenues	2022	2021
Taxes:		
Property	\$ 30.1	\$ 28.5
Sales and Use	3.7	3.0
Utility Users	3.1	2.9
Other taxes	3.5	2.3
Licenses, permits and fees	4.9	4.6
Intergovernmental	5.8	4.2
Grants and Donations	0.5	4.0
Charges for services	4.1	3.2
Fines, forfeitures and penalties	0.2	0.1
Interest and Rentals	(1.3)	0.2
Other	3.8	0.4
Total revenues	58.5	53.4
Expenditures		
Current:		
Public Safety	21.1	19.4
Public works	6.1	5.6
Recreation	2.5	1.8
Community Development	7.0	6.5
Administration / Finance	14.0	7.7
Capital Improvements	6.7	23.3
Debt Service		
Principal	0.5	0.6
Interest and Fiscal Charges	0.3	0.2
Total expenditures	58.3	65.1
Excess (deficiency) before transfers	0.2	(11.7)
Other		
Transfers (net)	(0.1)	10.0
Net change in fund balance	0.1	(1.7)
Beginning Fund Balance* Reinstated	\$ 46.2	47.9
Ending Fund Balance	\$ 46.3	\$ 46.2

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Detailed Analysis of Major Governmental Funds by Fund

General Fund

The General Fund is the chief operating fund of the City. For the year ending June 30, 2022, the total fund balance was \$19.6 million, \$10.5 million of which is non-spendable, restricted, or has been committed or assigned to cover contingencies, claims, encumbrances, advances to other funds, and other City projects. The unrestricted unassigned fund balance is \$9.1 million, an increase of \$4.1 million from the prior year.

Revenues were \$3.7 million higher in the fiscal year ended June 30, 2022, compared to last fiscal year, a change of 7.4%.

Expenditures increased \$6.8 million in the fiscal year ended June 30, 2022, compared to the last fiscal year, a change of 10.5%. Significant changes in revenues and expenditures that affected the General Fund balances are discussed below:

General Fund Revenues

Property Taxes overall increased by \$1.6 million, or 5.7% compared to the prior year. This increase is primarily attributable to continued increases in property values (assessed value) and residential sales activity that increased the tax roll.

Sales and Use Taxes overall increased by \$0.7 million, or 24.8% compared to the prior year. The revenue is almost recovered to the pre-pandemic level.

Utility user Taxes overall increased by \$0.2 million, or 6.7% compared to the prior year. This increase was due to inflationary increases rather than an increased tax base.

Charges for Services increased by \$0.7 million, or 23.1% compared to the prior year, mainly related to city facilities for recreational activities including the opening of the new Community Center.

Grants and donations decreased by \$0.1 million or 2.5% compared to the prior year, mainly due to a reduction in CARES Act stimulus funds allocated to the City in fiscal year 2022.

Other Taxes increased significantly by \$1.2 million, or 54.2% compared to the prior fiscal year, primarily due to the recovery from the pandemic of Transient Occupancy Taxes and real estate document transfer tax.

Interest and Rentals decreased by \$1.1 million compared to the prior fiscal year, primarily due to the significant reduction in market interest rates applicable to the City's investment funds.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

General Fund Expenditures

Public Safety expenditures increased by \$1.7 million, or 8.9% compared to the prior year primarily due to increased personnel and benefit costs and fire services contract costs, offset by lower other expenses.

Public works expenditures increased by \$0.5 million, or 9.5% compared to the prior year, primarily due to salary increases.

Community development expenditures increased \$0.1 million, or 1.8% compared to the prior fiscal year, primarily attributable to salary adjustments.

Recreation expenditures were \$0.7 million, or 41.1% more than the prior year, primarily due to an overall increase in operations and the opening of the new Community Center and costs related to other city facilities.

Administration and Finance expenditures increased by \$6.3 million, or 81.4% compared to the prior year, primarily due to a one-time elective contribution of \$6.5 million to CalPERS Pension and OPEB.

In-lieu Parkland

The In-lieu Parkland Fund had revenues of \$3.8 million from In Lieu fees received during the year which was \$2.2 million higher than the prior year. Expenses included a transfer out to the capital projects fund of \$0.04 million and the debt service payments of \$0.9 million.

Capital Investment Program Fund

The Capital Investment Program Fund accounts for funds used for capital improvements and significant maintenance projects. As of June 30, 2022, its fund balance was \$11.8 million, primarily due to monies transferred from the General Fund.

The Capital budget also has planned appropriations of almost \$48.8 million over the fiscal year 2023-fiscal year 2026 CIP plan from various funding sources such as Gas tax, General fund, and enterprise funds.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Summary Analysis of Proprietary Funds

As of June 30, 2022, the Enterprise Funds had a net position balance of \$30.3 million, an increase of \$0.1 million from the prior year. The net position balance of the Internal Service Funds is \$1.3 million, down \$1.0 million from the previous fiscal year, due to the underfunding of workers' compensation and liability insurance.

Table 7
Change in Fund Net Position - Proprietary Funds
(In Millions)

	Total Enterprise Funds		Total Internal Service Funds	
	2022	2021	2022	2021
Operating revenues	\$ 9.2	\$ 8.0	\$ 1.6	\$ 0.3
Operating expenses	8.0	5.7	3.3	2.1
Operating income (loss)	1.2	2.3	(1.8)	(1.9)
Non-operating revenues (expenses)	(0.4)	0.1	0.0	0.0
Net income (loss) before contributions and operating transfers	0.8	2.4	(1.8)	(1.9)
Transfers in (out) and Capital Contributions	(0.7)	0.0	0.8	0.0
Change in net position	\$ 0.1	\$ 2.4	\$ (1.0)	\$ (1.9)

Sewer Fund

This fund accounts for the administration and operation of the City's sewer system. The total net position is \$25.1 million, an increase of \$0.5 million.

Solid Waste Fund

This fund accounts for the administration and operation of the City's solid waste system. The total net position is \$5.2 million, a decrease of \$0.4 million.

BUDGETARY HIGHLIGHTS OF THE CITY'S GENERAL FUND

Over the course of the year, the City Council revised the City's budget with adjustments for various revenue and expenditure changes. After taking into account these adjustments, General Fund actual revenues were higher than the final budget by \$2.1 million, or 4.1%, which is primarily attributable to higher recreation fees, transient occupancy tax, sales tax, business License tax, and development fees offset by lower investment income.

General Fund actual expenditures were \$2.5 million or 4.6% under the final budget, with savings from Community Development of \$0.6 million, Public Works of \$0.6 million, Administrative Services of \$0.6 million, and Public Safety of \$1.0 million, partly offset by higher Recreation of \$0.7 million due to additional staff cost related to the reopening city's facilities and the opening of the Community Center.

Net unassigned fund balance for the year was \$9.1 million after accounting for contributions to the Capital projects, Debt service, and others. This amount represents a \$4.1 million increase from the prior fiscal year.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

CAPITAL ASSETS AND LONG-TERM DEBT

Capital Assets

The City records all of its capital assets, including infrastructure in the Statement of Net Position. Infrastructure includes roads, bridges, signals, and similar assets used by the entire population. The City has recorded its capital assets at historical cost or estimated historical cost if the actual historical cost was not available. In addition, donated fixed assets have been valued at their estimated acquisition value on the date donated.

On June 30, 2022, the cost of infrastructure and other capital assets recorded on the City's financial statements is shown in Table 8 on the next page:

Table 8
Capital Assets
(in Millions)

	<u>2022</u>	<u>2021</u>
Governmental activities		
Land	\$ 11.7	\$ 14.5
Construction in progress	30.8	45.6
Buildings	21.6	21.6
Improvements	6.5	6.5
Machinery and equipment	7.2	7.1
Infrastructure	68.1	46.6
Less accumulated depreciation	(39.2)	(36.1)
Totals	<u>\$ 106.7</u>	<u>\$ 105.8</u>
Business-type activities		
Construction in progress	\$ 2.0	\$ 1.4
Buildings	18.0	17.9
Machinery and equipment	1.1	1.1
Infrastructure	8.4	8.1
Less accumulated depreciation	(14.1)	(13.8)
Totals	<u>\$ 15.4</u>	<u>\$ 14.7</u>

On June 30, 2022, the City had assets of \$106.7 million, net of depreciation, invested in a broad range of capital assets used in governmental activities, and \$15.4 million, also net of depreciation, invested in Business-type activities assets, as shown in Table 8 above.

The City depreciates all its capital assets on a straight-line basis over their estimated useful lives. The purpose of depreciation is to spread the cost of a capital asset over the years of its useful life so that an allocable portion of the cost of the asset is borne by all users. Additional information on capital assets may be found in Notes 1 and 5 to the Basic Financial Statements.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

Long Term Debt

On June 30, 2022, the City's debt was comprised of the following:

Table 9
Outstanding Debt
(In Millions)

	<u>2022</u>	<u>2021</u>
Governmental activities		
2004 Certificate of Participation	\$ 0.8	\$ 0.9
Community Center Lease	9.1	9.5
Compensated Absences	1.5	1.9
Total governmental activities debt	<u>\$ 11.3</u>	<u>\$ 12.3</u>
 Business-type activities		
Compensated Absences	\$ 0.1	\$ 0.1
Total business-type activities debt	<u>\$ 0.1</u>	<u>\$ 0.1</u>
 Total debt	 <u>\$ 11.4</u>	 <u>\$ 12.4</u>

The City made all required debt service payments on the issues listed above.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The City has enjoyed several consecutive strong financial years principally driven by growth in property tax. Economic development and the strength of the Bay Area and national economy have driven continued growth in revenues. Meanwhile, expenses have grown due to inflationary increases, negotiated wage increases, and pension cost increases.

In fiscal year 2022, Los Altos gradually recovered from COVID-19. Sales tax increased to \$ 3.7 million and Transit Occupancy Tax (TOT) increased to \$1.8 million from \$0.7 million in fiscal year 2021.

Even with the ongoing recovery from the COVID-19 pandemic, the city will continue to face financial challenges. There is economic uncertainty remaining from the pandemic and actions taken by the Federal Reserve to address inflationary pressures, and projected increases in pension costs. The City also faces the need to identify resources to replace aging capital infrastructure, which resources are presently inadequate to address all of the City's forecast facilities needs.

The pension rate for fiscal year 2022 is based on information provided by the California Public Employee's Retirement System (CalPERS). On July 20, 2022, CALPERS announced preliminary net investment rate of -6.1% for the fiscal year 2022¹. This action, coupled with other assumption changes made by CalPERS, is resulting in a substantial increase in pension contributions for employers.

To address increasing retirement obligations, the City Council approved an elective contribution of \$5 million to reduce future pension costs and \$1.5 million to reduce future retiree health costs.

City of Los Altos
Management's Discussion and Analysis, Continued
For the year ended June 30, 2022

The City Council has also identified funding capital infrastructure as a high-priority area and is working to identify current and future facility needs and potential funding options to address those needs.

Major Capital Projects in construction for fiscal years 2022 and beyond include:

- \$2,161,056 – Annual Street & City Alley Resurfacing
- \$1,102,380.32 – Fremont Avenue Pavement Rehabilitation
- \$988,017- Annual Sewer System Repair Program
- \$911,682 – Los Altos Community Center Redevelopment
- \$514,711 – Community Chamber AV Equipment
- \$328,980 – Housing Element Update
- \$411,758 – Annual Street Slurry Seal and Stripping
- \$265,553 – Police Records Management & Dispatch system

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This Annual Comprehensive Financial Report is intended to provide citizens, taxpayers, investors, and creditors with a general overview of the City's finances. Questions about this report should be directed to the following address: City of Los Altos, Finance Department, 1 North San Antonio Road, Los Altos, California 94022.

A copy of this financial report can be found on the City's website at <http://www.losaltosca.gov>, by selecting "Audited Financials" in the "Quick Links" section and then selecting "Other Financial Reports."

1. <https://www.calpers.ca.gov/page/newsroom/calpers-news/2022/calpers-preliminary-investment-return-2021-22>

GOVERNMENT-WIDE FINANCIAL STATEMENTS

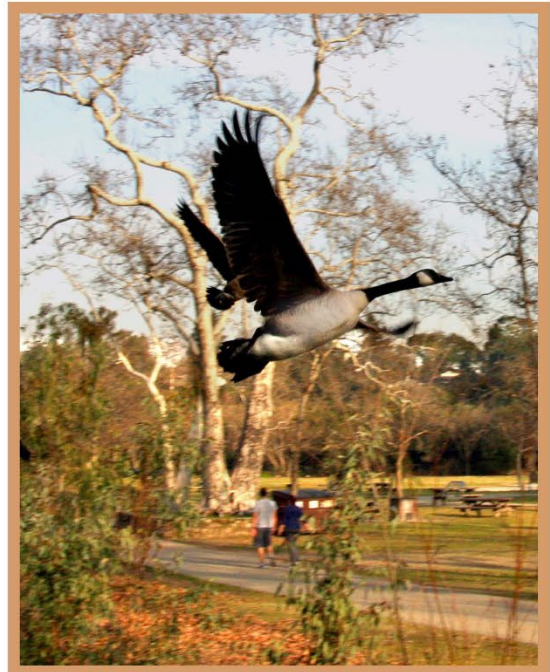
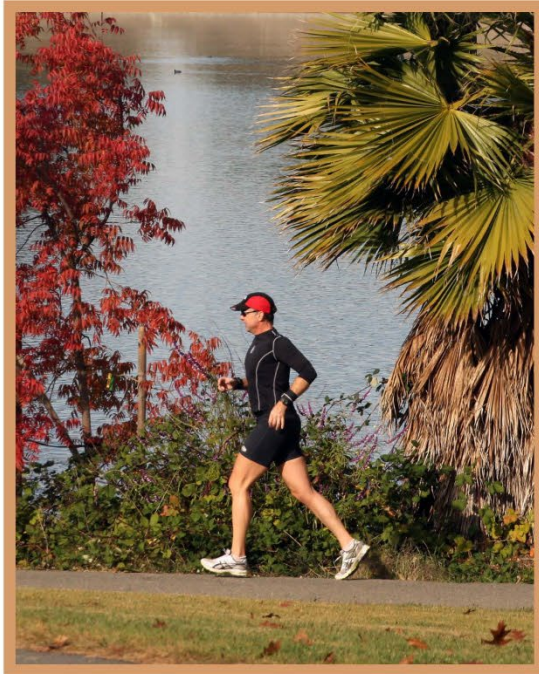
**STATEMENT OF NET POSITION
AND STATEMENT OF ACTIVITIES**



TOWN OF LOS GATOS

Item 9.

CALIFORNIA



Annual Comprehensive Financial Report

Fiscal Year ending June 30, 2023

DRAFT

Old Town Los Gatos Image—Ricky Pan

**TOWN OF LOS GATOS
CALIFORNIA**

**ANNUAL COMPREHENSIVE
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2023**

DRAFT

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

TOWN HISTORY

Los Gatos is located at the base of the Santa Cruz Mountains at the southwest edge of Santa Clara County and approximately 50 miles south of San Francisco. The natural landscape includes picturesque hillsides, creeks, and valley flatlands. Los Gatos is in an area once occupied by Indigenous People, who lived sustainably in the area rich with fertile soils, abundant wildlife, and other natural resources.

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 the Los Gatos community voted to incorporate.

Fruit industries faded slowly during the Depression and World War II, but the postwar period brought an influx of people, producing residential and commercial development. Highway 17 was constructed through the center of town, opening in 1940. 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 residents. 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 nearly 15 square miles and has a population of about 33,102. This growth over the first 80 years resulted in a human scale community with narrow streets and small buildings.

As it exists now, Los Gatos' 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 the picturesque setting of the Town. In the midst of the growth of Silicon Valley, Los Gatos attracts people with a preference for the Town's distinctive, high quality natural and urban environment.

TOWN VISION STATEMENT

The Town of Los Gatos's Vision Statement articulates the future Los Gatos and reflects the high ideals identified by the community:

Residents are united in their desire to maintain a high quality of life and preserve the character of the Town. The overall community consensus is that Los Gatos be a full-service community that is also environmentally sensitive; that Los Gatos maintains a balanced, well-designed mix of residential, commercial, service and open space uses, fostering a pedestrian-oriented community with a small town, village-like character; that Los Gatos supports an active business community that provides a wide variety of goods and services and a broad range of employment opportunities, eliminating the need to travel to other communities; and that Los Gatos provides a well-run, efficient municipal government that is fiscally healthy, with high levels of public safety, recreational, art and cultural amenities and is connected to high quality education.

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**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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To Be Updated After Finance Commission Review of Proposed Changes

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INTRODUCTORY SECTION

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TOWN OF LOS GATOS

OFFICE OF THE TOWN MANAGER

Phone: (408) 354-6832

FAX: (408) 399-5786

November 27, 2023

Honorable Mayor and Town Council and Residents of Los Gatos,

I am pleased to submit the Town's Annual Comprehensive Financial Report (ACFR) for the fiscal year ending June 30, 2023. In coordination with the Town Manager's Office, this report was prepared by the Finance Department, which assumes responsibility for the accuracy of the data, the completeness and fairness of the presentation, and all disclosures. The information in this report presents the reader with a comprehensive view of the Town's financial position and the results of its operations for the fiscal year ending June 30, 2023, along with additional disclosures and financial information designed to enable the reader to gain an understanding of the Town's financial activities.

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

This Annual Comprehensive Financial Report is organized into three sections:

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

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

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

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

THE REPORTING ENTITY AND ITS SERVICES

Los Gatos is a general law Town, incorporated under the legal framework of California in 1887. The Town is located in the foothills and level terrain of southwestern Santa Clara Valley, referred to internationally as "Silicon Valley." From the first 100-acre Town site and an 1890 population of 1,652, Los Gatos grew slowly so that by 1963 the area was 6.3 square miles with a population of 11,750. Today Los Gatos covers approximately 15 square miles with a population of 33,102 (California Department of Finance, January 2023). The growth over the last 80 years resulted in a community with vibrant business districts, well-maintained neighborhoods, and lovely parks and open spaces. Preserving the unique charm of Los Gatos as a complete and well-balanced community while meeting its economic and housing needs, has been, and remains a key goal for the Town.

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

ECONOMIC CONDITIONS AND OUTLOOK

This past year, the Town continued to see a modest return to economic normalcy after the initial economic impacts associated with the pandemic. ~~The Town closed FY 2022/23 with a net \$5.7 million General Fund surplus due to a variety of factors discussed in the MD&A. However, the Town's economically sensitive Transient Occupancy Tax (TOT) revenues remain below near historic lows and Sales Tax receipts are flattening. Property Tax revenues remained steady and remote work remained viable for certain occupations.~~

General Fund revenues (not including transfers in) increased 8.5% from the prior year. Property tax revenues remain the largest and most consistent source of support for General Fund operations, comprising approximately 44.9% of General Fund revenues in FY 2022/23. For FY 2022/23, property tax receipts of \$22.7 million were \$1.6 million higher than the prior year's collection, reflecting the continued desirability of the Town, its environment, culture, and educational opportunities.

The Town also relies heavily on sales tax revenues to support General Fund operations, comprising approximately 17.4% of General Fund revenues in FY 2022/23. For FY 2022/23 sales tax receipts of \$8.8 million were \$0.3 million higher than the prior year's collection. Sales tax revenues were supported by the continued resurgence of the restaurant sector. The Town's 1/8 cent District Sales Tax continued to perform well as the District Tax captures a larger share of the increase in online sales versus the County pool collections.

In addition to the Town's revenue sources, the Town benefited from the federal American Rescue Plan Act (ARPA). The Act allocated \$7,229,744 to the Town over a two-year period. The Town has received both payments. During the fiscal year ended June 30, 2023, the Town recognized \$3,614,872 as operating grant revenue in the ARPA special revenue fund and transferred \$3,614,872 to other funds, reimbursing the Town for qualifying expenditures under the provisions of the Act. For more information regarding the two federal programs please refer to Note 16.

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

The Town also continues to adjust and prepare for pension employer costs to continue to be a primary expense in conjunction with salaries. The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced changes in actuarial assumptions, demographic changes, and volatile investment returns which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic conditions is the creation of unfunded pension and Other Post-Employment Benefits (OPEB) obligations for the Town. According to the 2022 CalPERS actuarial valuations, the unfunded actuarial liability for pensions was \$59.9 million and \$7.0 million for OPEB as of June 30, 2022.

To address the escalation in pension costs, current and previous Councils have allocated additional discretionary pension funding totaling \$10.4 million in prior fiscal years. These additional discretionary payments will ultimately yield an approximate \$12.7 million in pension contribution savings. In addition to the management of the Town's pension obligations, prior Councils have worked to curb cost escalation in Other Post-Employment Benefits (OPEB). In 2009, the Town initiated prefunding of retiree healthcare benefits and has since established approximately \$24.3 million in OPEB assets from zero in 2009.

In addition, it should be noted that the net pension obligation varies annually depending upon the plan's actual investment earnings compared to the assumed rate of return during the plan's measurement periods. The Net Pension Obligation (NPO) reported in the Town's ACFRs has experienced a high degree of variability in recent years, with Net Pension Obligation reported in the

June 30, 2017 ACFR in the amount of \$33.4 million rising to \$58.02 million in fiscal year 2020/21, and decreasing to \$27.48 million in FY 2021/22. The NPO reported in this year's financial statements (ACFR 2022/23) has increased 52.6% to the current NPO of \$59.86 million. Due to CalPERS preliminary returns of 5.8%, staff expects the NPO to rise in the next fiscal year reporting period.

Readers are cautioned that in considering the amount of the pension and OPEB liabilities and other actuarial data as reported by CalPERS and the Town's actuary, this is "forward looking" information. Such "forward looking" information reflects the judgment of the Board of Administration of CalPERS, its actuaries, and the Town's actuary as to the amount of assets which the pension and OPEB plans will be required to accumulate to fund future benefits. These judgments are based upon a variety of assumptions, one or more of which may prove to be inaccurate or that may change with the future experience of the pension and OPEB plans. The actuarial methods and assumptions could be changed by CalPERS and the Town's actuary at any time based on their professional judgement. Such changes could cause the Town's obligations to the pension and OPEB plans to be higher or lower in any particular year. This sensitivity to changes in actuarial assumptions is especially evident in changes to the Discount Rate as illustrated in Note 11 and changes to Healthcare Trend and Discount rates as illustrated in Note 12.

For detailed information about the Town employees' retirement plan please refer to Note 11 of the Notes to Basic Financial Statements Section. For detailed information about the Town OPEB obligations please refer to Note 12 of the Notes to Basic Financial Statements Section. In addition, the Town provides extensive information on pension and OPEB information on the Town's website.

Despite revenue constraints and increasing costs associated with unfunded federal and state mandates, the Town has managed to maintain high service levels and balanced budget through prudent fiscal management. The Town continues its outreach to the community, the League of California Cities, and local legislators to prevent and limit any future revenue losses and mandated cost increases.

MAJOR CAPITAL PROJECT INITIATIVES

Major capital asset and infrastructure initiatives were once again the priority for the fiscal year. Approximately \$9.5 million in Town infrastructure and other capital asset improvements and contributions were invested in FY 2022/23, including \$3.4 million in Town-wide street projects to improve the pavement condition, \$0.7 million adding subscription right of use of assets by GASB 96 implementation, \$0.6 million equipment adds, and \$0.3 million for storm drain and park improvements. In addition, \$4.5 million was invested in construction in progress including, roads, bridges, storm drains, park, pathways, building improvements, and downtown revitalization efforts.

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

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

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

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

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

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

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

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

AWARDS

The Town's Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022 was awarded a Certificate of Achievement for Excellence in Financial Reporting by the national Government Finance Officers Association. This is the 28th consecutive year that the Town has received the award. This prestigious award recognizes the report's conformance with strict

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

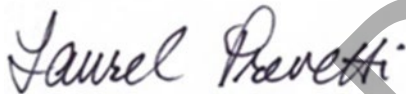
INDEPENDENT AUDIT

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

ACKNOWLEDGEMENTS

The preparation of this Annual Comprehensive Financial Report, as presented herein, is the result of the combined efforts and dedicated services of the excellent staff of the Department of Finance. Special thanks to Eric Lemon, Finance and Accounting Manager; Mark Gaeta, Accountant; Eagled'Or Am Accountant, Melissa Ynegas, Finance Analyst; Diane Howard, Finance Analyst; and Wayne Chen, Administrative Technician for their efforts in preparing this report. The Town's Finance Commission is also recognized for its contributions to strengthening the ACFR through its review, discussion, and comments.

Respectfully submitted,



Laurel Prevetti
Town Manager

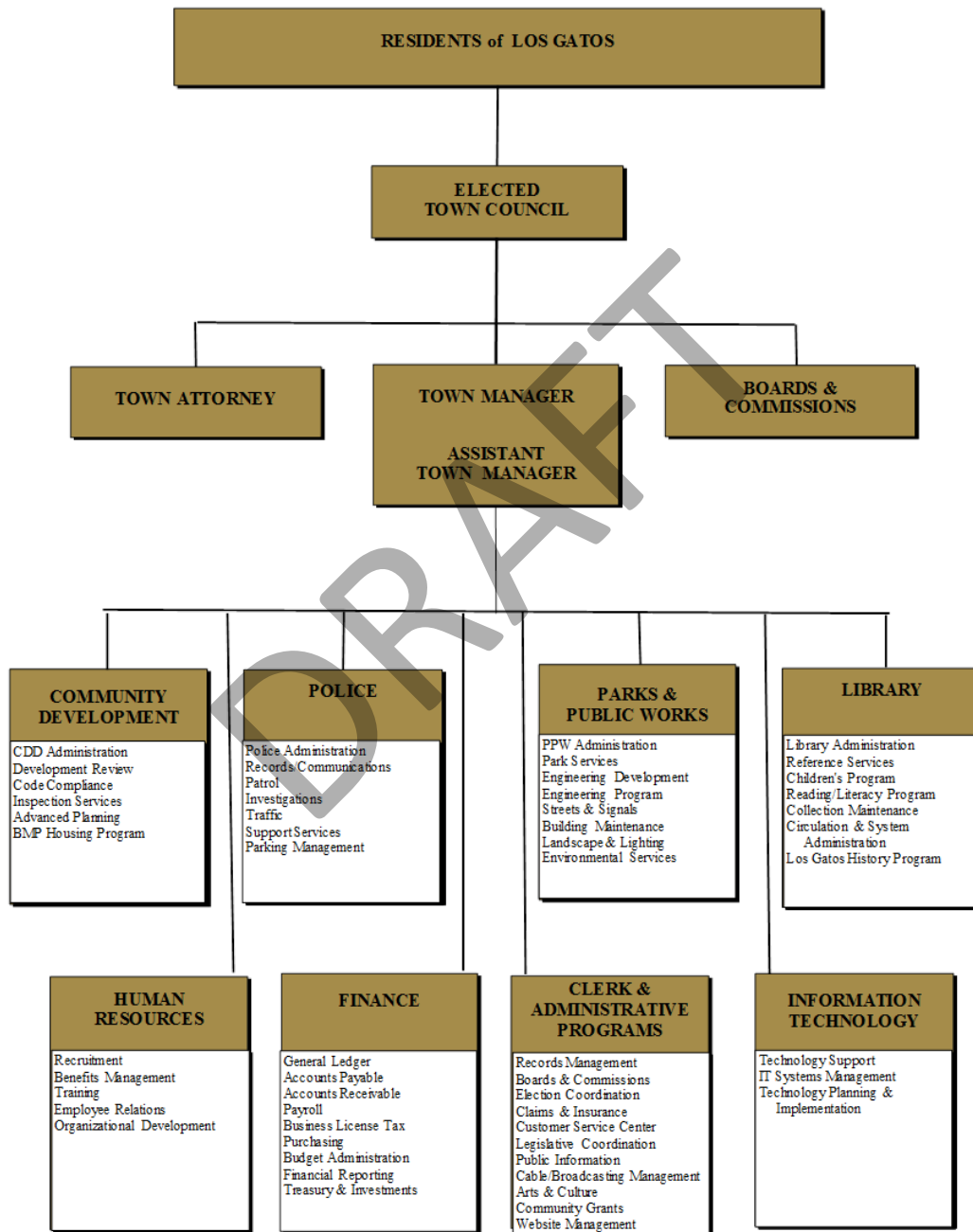


Gitta Ungvari
Director of Finance



Town of Los Gatos

Organizational Structure



**TOWN OF LOS GATOS
PRINCIPAL OFFICERS
JUNE 30, 2023**

TOWN COUNCIL

Mayor

Vice Mayor

Council Member

Council Member

Council Member

Maria Ristow
Mary Badame
Matthew Hudes
Rob Moore
Rob Rennie

COUNCIL APPOINTEES

Town Manager

Town Attorney

Laurel Prevetti
Gabrielle Whelan

APPOINTED OFFICIALS

Assistant Town Manager

Chief of Police

Community Development Director

Parks and Public Works Director

Library Director

Finance Director

Human Resources Director

Katy Nomura
Jamie Field
Joel Paulson
Nicolle Burnham
Ryan Baker
Gitta Ungvari
Salina Flores



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Town of Los Gatos
California**

For its Annual Comprehensive
Financial Report
For the Fiscal Year Ended

June 30, 2022

Christopher P. Morill

Executive Director/CEO

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FINANCIAL SECTION

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Chavan and Associates, LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos (the "Town"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise Town's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, General Fund budgetary statement, and the aggregate remaining fund information of the Town of Los Gatos, as of June 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of a Matter

As discussed in Note 1 to the financial statements, for the year ended June 30, 2023, the Town adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, Subscription-Based Information Technology Arrangements. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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



Chavan and Associates, LLP
Certified Public Accountants

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town's basic financial statements. The combining and individual fund financial statements, schedules, and other information listed in the supplementary information section of the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the combining and individual fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

The Town's management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory and statistical sections but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2023 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town's internal control over financial reporting and compliance.

C & A LLP

Chavan & Associates, LLP
Certified Public Accountants
November 27, 2023
Morgan Hill, California

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Management's Discussion and Analysis

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Town of Los Gatos's Annual Comprehensive Financial Report (ACFR) presents Management's Discussion and Analysis (MD&A) of the Town's financial performance during the fiscal year that ended on June 30, 2023. This analysis should be read in conjunction with the Transmittal Letter at the front of this report and the accompanying Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- Town assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of Fiscal Year (FY) 2022/23 by \$153,522,262 (total net position).
- The Town's total net position increased by \$15,115,281 in FY 2022/23 during the fiscal year largely as a result of general revenue collection of \$39.4 million and a \$1.6 million litigation settlement combined with net expenses over revenues in governmental activities expenses of \$25.8 million. combined with general revenue collection of \$39.4 million, and \$1.6 million litigation settlement.
- The increase in long-term liabilities was mostly attributed to the increase in net pension liabilities of \$32.4 million. The increase was due to each plan's actual investment earnings of negative 7.5%, which were significantly lower than the actuarial return assumptions during the plans' measurement period (July 1, 2021 through June 30, 2022).
- Total pension expense calculated for the Town's miscellaneous and safety plans is \$5,870,044. A more detailed discussion of the Town's unfunded pension liabilities can be found in Note 11.
- Reported unrestricted net position is increased to \$11,542,661 compared to \$1,785,294 in the prior year. Unrestricted net position represents all resources not included as net investment in capital or restricted assets.
- A General Fund surplus of revenues over expenditures was \$5.7 million in FY 2022/23.
- During FY 2022/23, the Town implemented GASB Statement No. 96 Subscription-Based Information Technology Agreements. As a result, the Town recorded subscription right of use assets totaling \$915,860 and subscription liabilities totaling \$653,681. See Note 8 for additional information.
- The Town received \$7,229,744 from the American Rescue Plan Act (ARPA) grant. For FY 2020/21, \$200K of ARPA proceeds were recognized as revenue to reimburse the Town for qualifying expenditures under the provisions of the Act including boosting economic recovery, providing rent forgiveness, and directing grants to non-profit and social welfare

organizations. For FY 2021/22 and FY 2022/23, the Town recognized \$3.4 million and \$3.6 million respectively in ARPA revenues related to recovery of revenue loss.

- The Town's economically sensitive major revenues of property tax, sales tax, and franchise fees were able to record gains from amounts reported the prior fiscal year. Property taxes collected increased \$1.6 million, sales taxes and franchise fees increased \$0.3 million. Business License Tax increased by \$0.9 million based on the new voter-approved business license tax ordinance.
- FY 2022/23 Transient Occupancy Tax (TOT) revenue collection increased by \$0.3 million compared to the level collected in FY 2021/22. However, FY 2022/23 inflows of \$2.2 million ~~are~~ **is** still \$0.5 million lower than FY 2018/19 (pre-pandemic) level of TOT collection.
- Total expenses as reported in the Statement of Activities decreased \$3.4 million from the prior year. The decrease was primarily driven by the fact that prior year General Government expenses included a one-time pass-through fire safety grant payment. In addition, other factors included Pension and OPEB expense credits of \$2.0 million calculated under accounting standards and allocated for FY 2022/23 compared to a \$4.4 million credit for the prior fiscal year.
- The cost of all governmental activities as presented in the Statement of Activities this year was \$49.3 million. The Town's governmental program revenues were \$23.5 million including charges for services of \$12.4 million, operating grants and contributions of \$7.2 million, and capital grants and contributions of \$3.9 million. After taking governmental program revenues into consideration, the net amount of taxpayer supported governmental activities was \$25.8 million. The Town paid for the remaining "public benefit" portion of governmental activities from total taxes and general revenues of \$39.4 million.
- At the end of FY 2022/23, the General Fund balance was \$29,528,304 compared to \$26,896,789 in the prior year. The ending fund balance of \$29,528,304 represents approximately 65.8% of General Fund expenditures for the current fiscal year excluding transfers-out to the Town's capital projects funds and internal service funds. The \$2.6 million increase in General Fund ending fund balances was primarily due to the combined effect of favorable year end increases in economically sensitive revenues coupled with operational savings, and approximately \$3.1 million net transfer to the Town's capital projects fund to provide resources for Town infrastructure improvements.
- Fund balances for all governmental funds at year end were \$61,185,528, an increase of approximately \$10.3 million or (20.3%) from the prior year. Governmental fund balances increased primarily due to General Fund increases of \$2.6 million and \$7.5 million for the General Fund Appropriated Reserve, including the General Fund Support, Capital Grants received, litigation settlement, and 50% of the Measure G proceeds.

- At fiscal year end, the Town's General Fund restricted cash assets reported a \$1.4 million balance in the Town's IRS Section 115 Pension Trust.
- As of June 30, 2023, the Town's investment in capital assets for its governmental activities was \$132,679,773 net of accumulated depreciation/amortization (\$106,613,671 depreciable/amortizable and \$26,066,102 nondepreciable). During FY 2022/23, the Town's investment and contribution in capitalized assets were \$9.1 million with depreciation totaling \$4.2 million. The Capital asset increased by \$4.9 million for the current year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

The Statement of Net Position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

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

Both of the Government-Wide Financial Statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activity*). The governmental activities of the Town include public safety, parks and public works, community development, library, community services,

debt service, and general government. Governmental activities typically include financial data for all governmental funds. Internal service funds are typically incorporated into governmental activities as well. Business-type activities typically include financial data for all enterprise funds. The Town has no enterprise funds and therefore reports no business-type activities.

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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 15 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.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide Pension and Other Post Employment benefits to its employees.

ANALYSIS OF GOVERNMENT-WIDE FINANCIAL STATEMENTS

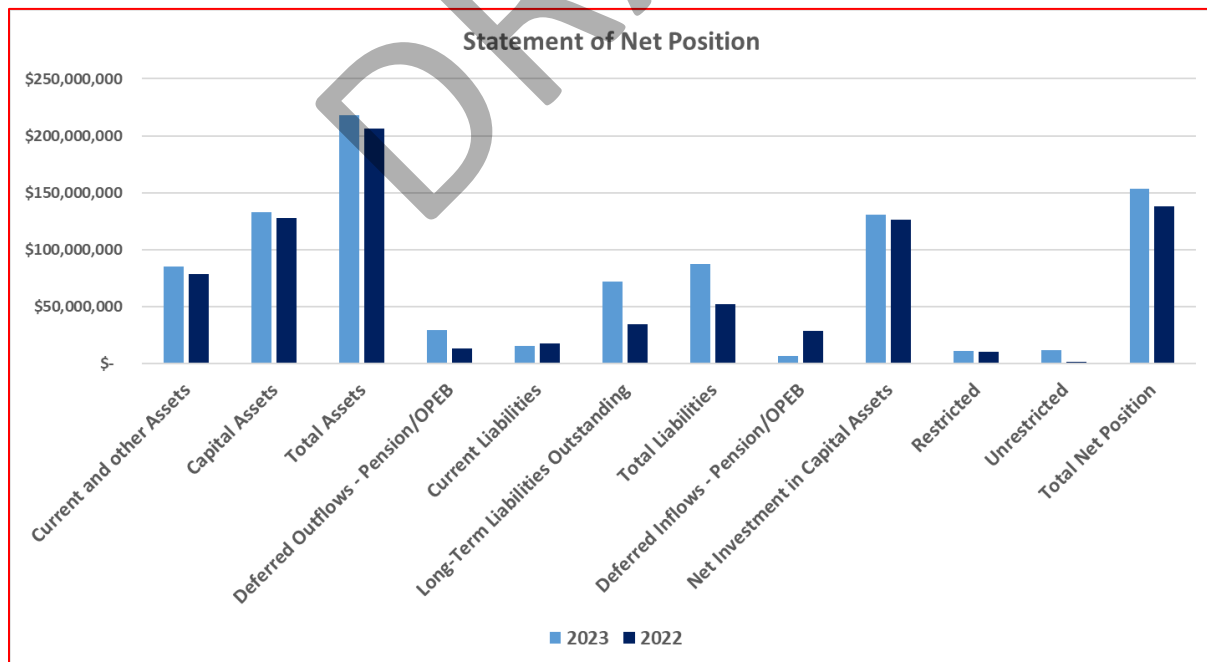
The Government-Wide Financial Statements provide long-term and short-term information about the Town's overall financial condition. This analysis addresses the financial statements of the Town as a whole, utilizing data from throughout the ACFR to describe the changes between 2022 and 2023. Given the unique nature of the economic impacts of the COVID-19 pandemic during the reporting period, 2021 data have also been provided for additional context.

Net Position Discussion

As shown below, the Town's combined net position for the year ended June 30, 2023 was \$153.5 million, reflecting an increase of approximately \$15.1 million to the prior year's net position of \$138.4 million. In general, net position can serve as an important indicator of whether the Town's overall financial condition is improving or deteriorating over time.

Town of Los Gatos
Net Position
Governmental Activities
For the Year Ended June 30, 2023

	2023	2022	2021
Current and other Assets	\$ 85,489,167	\$ 78,302,210	\$ 72,065,091
Capital Assets	132,679,773	127,770,566	111,416,264
Total Assets	<u>\$ 218,168,940</u>	<u>\$ 206,072,776</u>	<u>\$ 183,481,355</u>
Deferred Outflows - Pension/OPEB	29,526,262	13,232,279	19,746,595
Current Liabilities	15,857,589	17,537,678	16,334,887
Long-Term Liabilities Outstanding	71,847,737	34,368,351	71,339,626
Total Liabilities	<u>\$ 87,705,326</u>	<u>\$ 51,906,029</u>	<u>\$ 87,674,513</u>
Deferred Inflows - Pension/OPEB	6,467,614	28,992,045	2,335,387
Net Position			
Net Investment in Capital Assets	130,623,654	126,418,275	109,894,936
Restricted	11,091,020	10,203,412	8,269,330
Unrestricted	11,807,588	1,785,294	(4,646,166)
Total Net Position	<u>\$ 153,522,262</u>	<u>\$ 138,406,981</u>	<u>\$ 113,518,100</u>



Current and other assets increased \$7.2 million from the prior year, primarily due to a \$6.2 million increase in cash/restricted cash and investments, a \$0.4 million increase in accounts receivable, and a \$0.3 million increase in land held for resale.

Capital assets increased \$4.9 million to \$132.7 million for the year reflecting current year's capital asset additions/retirements less the annual depreciation/amortization expense. ~~Capital infrastructure activity includes the following:~~

- ~~• \$3.4 million in street repair and resurfacing and curb and gutter work Town-wide;~~
- ~~• \$4.5 million construction in progress as detailed under "Capital Assets" section of this MD&A;~~
- ~~• \$0.8 million added for equipment, storm drain and park improvements; and~~
- ~~• \$0.9 million added in subscription right of use of assets by implementing GASB 96 subscription-based information technology agreements.~~

Deferred Outflows for Pension and Other Post-Employment Benefits (OPEB) increased \$16.3 million primarily due to the difference between projected assumed investment returns and actual investment earnings on pension and OPEB investments, changes in assumptions, and the change in the Town's proportionate share for the pooled safety pension plan.

Long-term liabilities increased by \$37.5 million. The increase is primarily due to a pension liability increase of \$32.4 million and an increase of OPEB liabilities of \$4.5 million. See Note 11 and Note 12 in the Notes to the Financial Statements for more information on Town's pension and OPEB plans.

In addition, the implementation of GASB 96 subscription right of use of asset added \$0.4 million to the total liabilities.

Deferred Inflows decreased by \$22.5 million, resulting primarily from the difference between projected assumed investment returns and actual investment earnings on pension and OPEB investments. The pension inflows decreased \$19.0 million and the OPEB plan decreased \$3.5 million.

The largest segment of the Town's net position, representing \$130.9 million of net position, reflects the net investment in capital assets (e.g., land, buildings, infrastructure, subscription, and equipment) less accumulated depreciation/amortization and related outstanding debt used to acquire those assets. The Town uses these capital assets to provide infrastructure and services to the residents. ~~Therefore,~~ They do not represent a liquid financial resource to the Town and consequently are not readily available for funding current obligations.

Restricted net position totaled approximately \$11.1 million representing approximately \$8.8 million for capital projects and maintenance, \$1.4 million for restricted pension trust, \$0.5 million placed in a special revenue trust accounts for Library services, \$0.2 million for Lighting and Landscaping ~~a~~Assessment ~~d~~Districts, and \$0.1 million for workers' compensation.

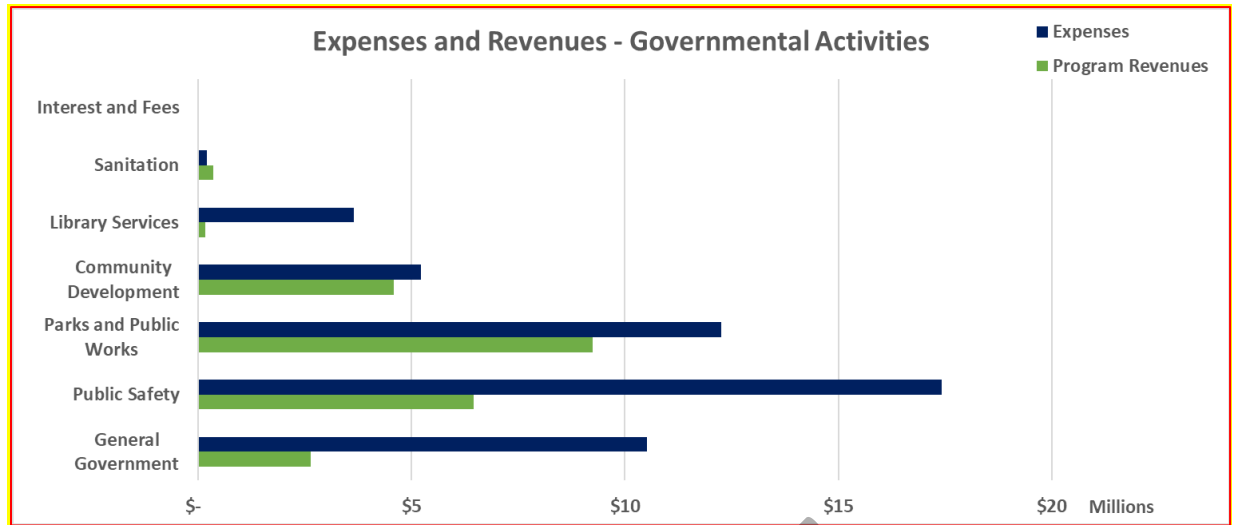
As of June 30, 2023, unrestricted net position reports an approximate \$9.8 million increase from the prior year to an ending balance of \$11.5 million.

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Governmental Activities

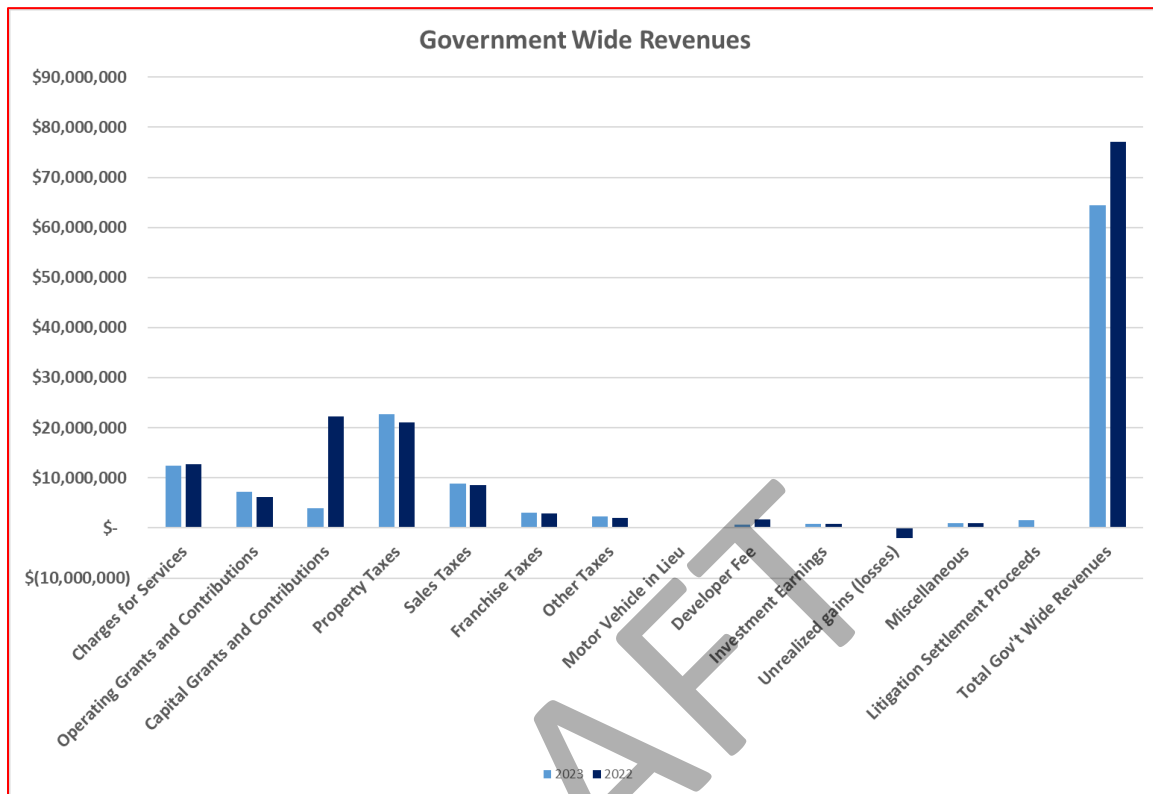
Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange revenues. The Statement of Activities is intended to illustrate how the cost of governmental activities is financed and determine the annual change in net position.

Town of Los Gatos Statement of Activities For the Year Ended June 30, 2023			
	2023	2022	2021
Revenues:			
Program revenues:			
Charges for Services	\$ 12,390,750	\$ 12,773,746	\$ 11,353,932
Operating Grants and Contributions	7,149,581	6,179,842	3,287,564
Capital Grants and Contributions	3,915,175	22,226,206	846,345
General Revenues:			
Property Taxes	22,746,842	21,132,098	19,878,835
Sales Taxes	8,806,477	8,483,673	7,933,604
Franchise Taxes	3,074,624	2,822,515	2,499,463
Other Taxes	2,292,008	2,042,580	1,126,887
Motor Vehicle in Lieu	34,406	35,624	23,058
Developer Fee	614,820	1,735,571	-
Investment Earnings	794,390	736,523	1,007,535
Unrealized gains (losses)	3,197	(2,015,501)	(780,399)
Miscellaneous	1,045,214	755,400	1,528,039
Special Items			
Litigation Settlement Proceeds	1,565,000	-	-
Total Revenues	<u>64,432,484</u>	<u>76,908,277</u>	<u>48,704,863</u>
Expenses:			
Police Department	17,428,923	15,093,308	19,808,230
Parks and Public Works	12,258,626	12,969,615	13,141,034
General Government	10,522,568	15,681,345	7,452,136
Community Development	5,215,961	5,827,001	6,481,075
Library Services	3,653,642	2,969,954	3,496,153
Sanitation	208,262	178,575	185,981
Interest and Fees	29,221	-	-
Total Expenses	<u>49,317,203</u>	<u>52,719,798</u>	<u>50,564,609</u>
Change in Net Position	<u>15,115,281</u>	<u>24,188,479</u>	<u>(1,859,746)</u>
Net Position - Beginning	138,406,981	113,518,100	115,377,846
Prior Period Adjustment - Principal Payments	-	13,003	-
Prior Period Adjustment - GASB 87 Leases	-	687,399	-
Net Position - Beginning, Adjusted	-	114,218,502	-
Net Position, Ending	<u>\$ 153,522,262</u>	<u>\$ 138,406,981</u>	<u>\$ 113,518,100</u>



DRAFT

Governmental Activities Revenue Discussion



The Statement of Activities shown above details how the \$64.4 million in Governmental Activities revenues and contributions were derived. ~~As categorized in the Statement of Activities as program revenues,~~ Approximately \$12.4 million or 19.2% of the revenues were recorded from fees paid by residents/businesses who directly benefited from the **respective** program or service. Another \$11.1 million or 17.2% of the revenues were sourced from operating/capital grants and contributions. Significant grants and contributions include \$3.6 million in recognized ARPA, \$0.8 million gas tax, \$0.7 million in Road Maintenance and Repair Account from the State proceeds, and \$0.5 million Prop 172 Public Safety allocations. The Town has received a \$1.6 million settlement from Santa Clara County and responsible contractors related to the Shannon Road litigation. The remaining \$39.4 million or 61.2% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues decreased by approximately \$17.7 million from the prior year. This is largely due to a \$18.3 million decrease in capital grants and contributions, \$0.4 million decreases from charges for services, and \$1.0 million revenue increases in operating grants and contributions.

The Town's General Revenues related to Governmental Activities increased by approximately \$3.7 million from the prior year. The increase is attributable to a combination of approximately \$2.1 million increase in investment earnings including the mark-to-market value adjustments on the Town portfolio investment, \$1.6 million increase in property taxes, a \$0.3 million increase in

sales tax, \$0.3 million increase in franchise fees, \$0.2 million increases in Transient Occupancy Tax (TOT). The increases were offset by \$1.1 million decrease in pass-through developer contributions.

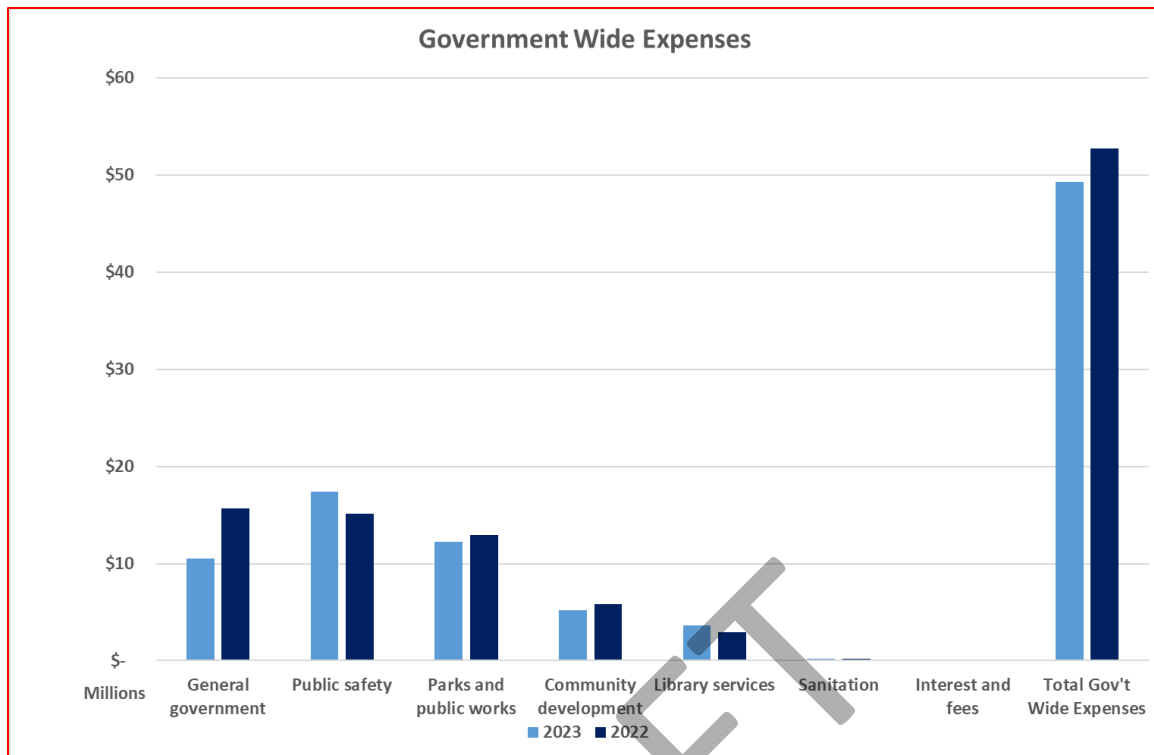
Property tax is the largest individual revenue source for the Town and collections finished the year \$1.6 million higher than the previous year. This increase was mostly due to an increase of \$1.8 million in general property tax collection, \$0.3 million increase in Vehicle License Fee (VLF) Property Tax In-Lieu fee, a \$73K decrease in secured taxes received as a rebate of excess property taxes collected and available from the State of California's Educational Revenue Augmentation Fund (ERAF), and \$0.4 million decrease in property transfer tax reflecting the current mortgage rate environment. It is important to note that assessed valuations for FY 2022/23 were established on the tax roll in January 2022 and collected in FY 2022/23.

At \$8.8 million, sales taxes represent the second largest individual revenue source for the Town. Sales taxes increased \$0.3 million from the previous year largely due to the continued resurgence of the restaurant sector. The increase was aided by the Town's 1/8 cent District Tax which captures a larger share of the increase in online sales versus those receipts provided by the County pool collections.

Franchise taxes, the Town's third largest revenue source, finished the year at \$3.1 million, reflecting an increase of \$0.3 million from the previous fiscal year.

Investment earnings increased \$2.1 million from the prior year. The primary factor responsible for this increase was the higher total mark-to-market value above historical investment cost than the prior year for the Town's investment portfolio. These unrealized gains/losses are recognized as investment income/loss as a result of the mark to market value procedure required by GASB 31. The FY 2021/22 actual GASB 31 adjustment reduced interest earnings by \$1,577,168, while the FY 2022/23 GASB 31 adjustment was \$1,573,971. After the reversal of the FY 2021/22 adjustments there was a gain of \$3,197. Per the Town Council General Fund Reserve Policy, \$10,000 or more of unrealized investment gains that have been recorded in the financial statement are required to be reserved.

Governmental Activities Expenses Discussion



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

Total expenses of \$49.3 million as reported in the Statement of Activities decreased by \$3.4 million from \$52.7 million the prior year. The decrease was primarily driven by the fact that prior year General Government expenses included a ~~\$6.9 million~~ one-time pass-through fire safety grant payment. In addition, other factors included Pension and OPEB expense credits of \$2.0 million calculated under accounting standards and allocated to FY 2022/23 compared to a \$4.4 million credit for the prior fiscal year. The calculated pension and OPEB expense credits of \$2.0 million was applied across all operating Departments. ~~as follows:~~

- ~~○ Public Safety \$1.9 million~~
- ~~○ Parks and Public Works \$36K~~

- ~~○ General Government \$35K~~
- ~~○ Community Development \$20K~~
- ~~○ Library \$13K~~
- ~~○ Non Point Source/Sanitation \$1K~~

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 \$11 million in fund balance classified as restricted to indicate that it has an externally imposed restrictions on how the money may be spent. Of the \$11 million restricted fund balance, \$8.6 million is restricted for capital projects, \$1.4 million for pension, \$0.5 million for Library special revenue trust accounts, and \$0.2 million for maintenance and repairs.

Committed Fund Balance – The Town has \$15.7 million in fund balance classified as committed to indicate that the Town Council previously committed how the money will be spent. Of the \$15.7 million, \$12.3 million is for budget stabilization (\$6.13 million) and catastrophe response (\$6.13 million).

Assigned Fund Balance – The Town has \$34.3 million in fund balance which is not restricted or committed and is classified as assigned to indicate the Town Council's intent to be used for specific purposes. The largest assignments of fund balance are the Reserve for Capital/Special Projects with a balance of approximately \$10.4 million and the Capital Projects Reserve of \$19.1 million which are the primary funding sources for the Town's five-year capital improvement plan and special projects as budgeted by the Town.

Additional information on the Town's Fund Balance can be found in Note 10 of the Notes to the Financial Statements.

Major Governmental Funds results for the year included the following:

TOWN OF LOS GATOS			
TOTAL GOVERNMENTAL FUNDS REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES			
FOR THE YEAR ENDED JUNE 30, 2023			
REVENUES	2023	2022	2021
Property Taxes	\$ 22,781,248	\$ 21,167,722	\$ 19,917,428
Sales Taxes	8,806,477	8,483,673	7,933,604
Other Taxes	2,263,686	1,976,198	1,126,887
Licenses & Permits	6,333,675	6,055,040	5,212,831
Intergovernmental	10,145,820	15,492,982	3,746,587
Charges for Services	5,718,714	6,925,359	6,035,659
Fines and Forfeitures	416,950	319,170	103,468
Franchise Fees	3,074,624	2,822,515	2,499,463
Developer Fees	614,820	1,735,571	-
Interest	797,582	(1,278,983)	227,940
Use of Property	237,647	144,901	40,372
Other	985,188	349,145	423,115
Total Revenues	\$ 62,176,431	\$ 64,193,293	\$ 47,267,354
EXPENDITURES			
Current:			
Public Safety	\$ 18,446,048	\$ 16,451,190	\$ 16,570,836
General Government	8,828,779	15,953,968	14,040,134
Parks and Public Works	9,084,406	8,639,128	8,229,944
Community Development	5,065,412	6,313,511	5,195,302
Library Services	3,208,027	2,827,210	2,847,988
Sanitation and Other	204,097	194,969	166,173
Capital Outlay	8,917,075	10,478,670	5,746,447
Debt Service			
Principal	156,034	156,034	-
Total Expenditures	\$ 53,909,878	\$ 61,014,680	\$ 52,796,824
Excess Revenues over Expenditures	\$ 8,266,553	\$ 3,178,613	\$ (5,529,470)
Settlement -Shannon Road	1,565,000	-	-
Proceeds from sales of assets	2,162	2,151	1,201,369
Proceeds from issuance of debt	-	-	1,560,336
Transfers in	11,886,022	8,154,307	4,053,535
Tranfers out	(11,396,347)	(8,310,685)	(3,940,015)
Total Other Financing Sources (Uses)	\$ 2,056,837	\$ (154,227)	\$ 2,875,225
Net Changes in Fund Balances	10,323,390	3,024,386	(2,654,245)
Beginning/Ending Fund Balances As Restat	\$ 50,862,138	\$ 47,837,752	50491997
Ending Fund Balances	\$ 61,185,528	\$ 50,862,138	\$ 47,837,752

Overall, total Governmental Funds revenues finished \$2.0 million or 3.1% lower than the prior year, while total expenditures finished \$7.1 million or 11.6% lower than the prior year. One of the main reasons for the decreases are because prior year revenues and expenses included

the one-time State pass-through wildfire grant in the amount of \$6.9 million. The approximate \$10.3 million increase in Total Governmental Fund balance is the net result.

General Fund revenues totaled \$50.6 million or nearly 81.4% of the total \$62.2 million in Total Governmental Fund revenues.

Total Governmental Funds revenues decreased by \$2.0 million, ~~resulting from the net effect of:~~

- ~~• \$2.0 million increase in investment earning including the mark-to-market value adjustments on the Town portfolio investment;~~
- ~~• \$1.6 million increase in property tax collections;~~
- ~~• \$0.7 million increase in use of property and other receipts;~~
- ~~• \$0.3 million increase in sales tax collection;~~
- ~~• \$0.3 million increase in TOT collection;~~
- ~~• \$0.3 million increase in licenses and permits;~~
- ~~• \$0.3 million increase in franchise fees;~~
- ~~• \$98K increase in fines and forfeitures;~~
- ~~• \$1.1 million decrease in development fees since prior year included the affordable housing loan;~~
- ~~• \$1.2 million decrease in charge of services reflecting current development activities; and~~
- ~~• \$5.3 million decrease in intergovernmental revenue, including the \$3.6 million ARPA proceeds compared to prior year which had a \$6.9 million pass-through grant and \$3.4 million ARPA proceeds.~~

Governmental Funds expenditures decreased by \$7.1 million. General Fund expenditures represent approximately \$44.9 million or 83.3% of the Total Governmental Fund expenditures of \$53.9 million compared to \$43.3 million of General Fund expenditures and total Governmental Funds expenditures of \$61.0 million in the prior year.

Increases in Public Safety expenditures from the prior year of approximately \$2.0 million were primarily due to salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates.

Increases in Parks and Public Works and Library services expenditures from prior year of approximately \$0.8 million were primarily due to salary and benefit cost increases resulting from labor negotiations and mandated increases in employer pension contribution rates.

Decreases in Community Development were primarily due to fact that prior year expensed the \$1.2 million affordable housing loan through the Below Market Housing program.

The \$7.1 million decrease in general governmental expenditures was mainly attributable to the fact that prior year included the one-time \$6.9 million State pass-through wildfire safety grant.

Appropriated Reserves Fund capital projects fund balances increased \$7.5 million from the prior year, reflecting increased capital activity during the fiscal year. The \$1.4 million of general government and capital outlay expenditures above operating revenues was offset by \$8.9 million from other financing sources, including \$1.6 million in settlement, and \$7.3 million net transfers.

Proprietary Funds

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

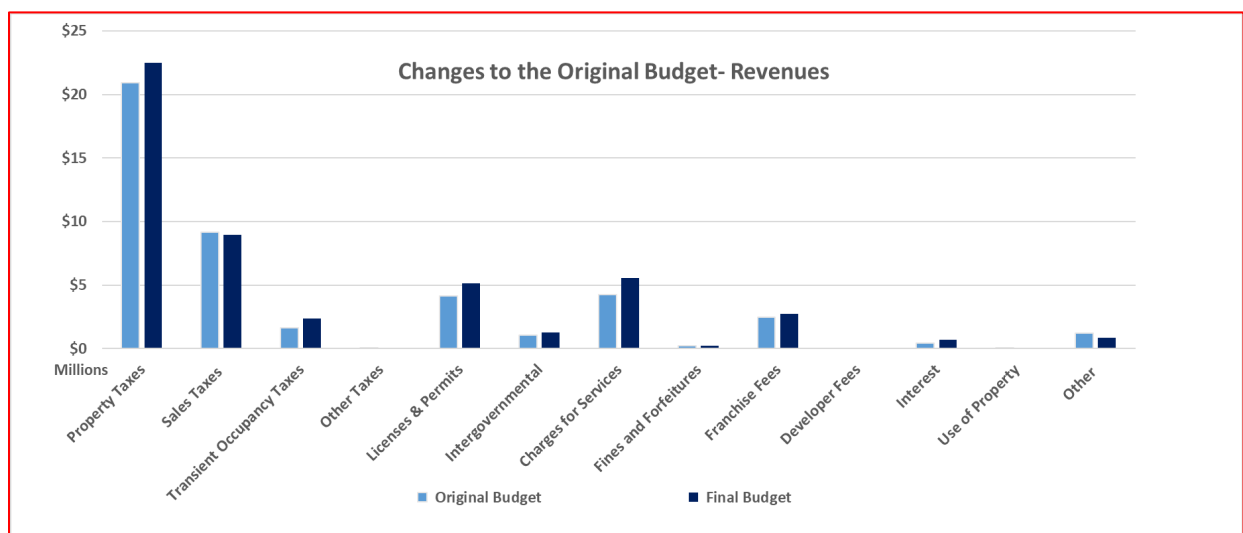
Total net position in the Internal Service Funds decreased by \$1.7 million, a combined effect of GASB 96 expense increase adjustment of \$0.2 million, a \$0.2 million increase in equipment replacement net position, a \$1.7 million decrease in FY 2022/23 due to excess expenses over revenues for workers' compensation, information technology, and general liability costs including administration, insurance premiums, and claims expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

Changes to the Original Budget

Comparing the FY 2022/23 original budget (i.e., the Adopted Budget) General Fund revenues of \$45,537,337 to the final adjusted budget of \$50,272,274 indicates a net increase of approximately \$4.7 million. Additions to the original revenue budget included adjustments approved by Town Council throughout the fiscal year.

Original Budget General Fund (GF) Revenues	Misc. Adjustments & Mid-Year Adjustments	Final Budget GF Revenues
\$45,537,337	\$4,734,937	\$50,272,274

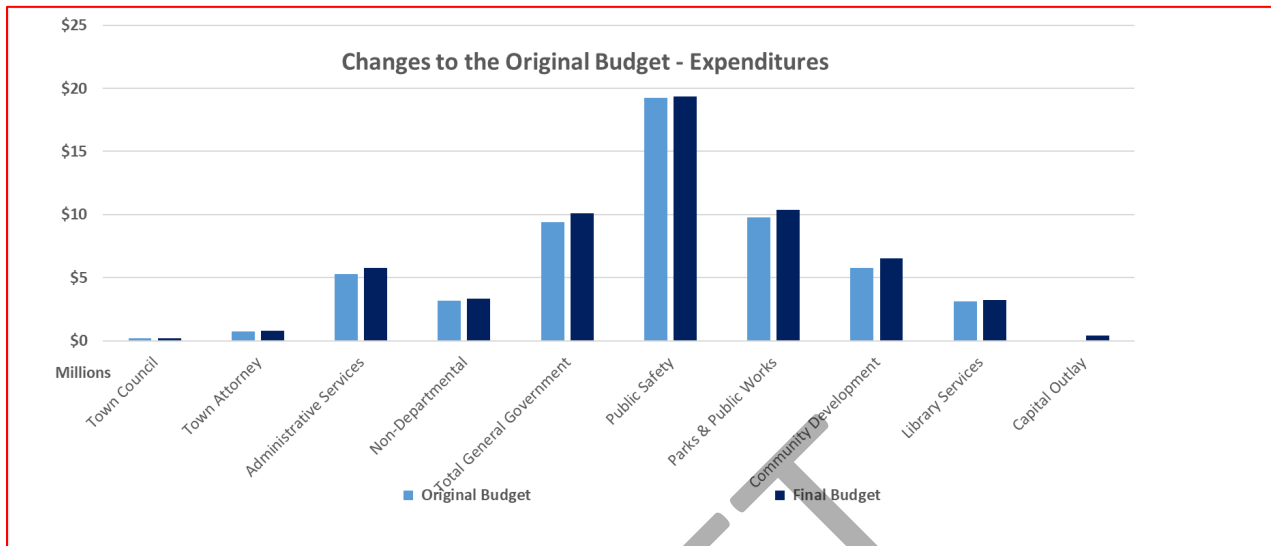


The increase in General Fund revenue appropriations occurred primarily from the following sample of revenue budget adjustments made during the fiscal year:

- \$1.6 million property tax revenue budget increase in line with the estimates and forecasts provided to the Town quarterly from Santa Clara County Assessor's Office;
- \$1.3 million revenue increases for charges for services including \$0.8 million development related pass-through revenues, \$0.4 million revenue budget increase regarding the purchasing and the preparation of reselling the Bersano Lane Below Market Unit, \$47K revenue budget increase from two local school districts for the School Resource Officer contract;
- \$0.9 million Business License Tax revenue budget increase based on the estimated collection per the new business license tax;
- \$0.7 million Transient Occupancy Tax (TOT) revenue budget increase based on actual receipts.;
- ~~\$0.2 million interest revenue budget increase;~~
- ~~\$0.2 million Franchise Fee revenue budget increase to recognize actual collection trend for electric, gas, and garbage franchise fees;~~
- ~~\$0.2 million intergovernmental revenue budget increase for recognizing operating grants for Community Development and Library Department and increased Prop 172 Public Safety Sales Tax proceeds;~~
- ~~\$65K revenue budget increase to recognize Solid Waste Fees;~~
- ~~\$50K additional encroachment revenue budget increase based on current development activity;~~
- ~~\$25K fines and forfeitures revenue budget increase to recognize current parking citation revenue collection;~~
- ~~\$0.2 million sales tax revenues budget decrease based on MuniServices, the Town sales tax consultant, quarterly sales tax update based on actual receipts and most likely scenario projection;~~
- ~~\$0.3 million net decrease in other revenue based on \$0.3 million revenue increase to recognize affordable housing loan repayment proceeds; \$0.2 million General Fund salary reimbursement revenue increase for capital project staff work; \$0.1 million revenue increase to recognize additional proceeds from the Police Foundation, opioid settlement, and Town benches; and offset with \$0.9 million Other Post-Employment Benefit (OPEB) Trust withdrawal revenue decrease as FY 2022/23 budget balancing was not needed; and~~
- ~~\$20K budget revenue decrease for not collecting parking revenue in Oak Meadow Park.~~

Comparing the FY 2022/23 original budget (i.e., the Adopted Budget) General Fund expenditures of \$47,354,218 (excluding budgeted transfers-out and debt payments that are reimbursed) to the final adjusted budget of \$50,204,894 indicates a net increase of approximately \$2.9 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 GF Expenditure Budget
\$47,354,218	\$2,850,676	\$50,204,894



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

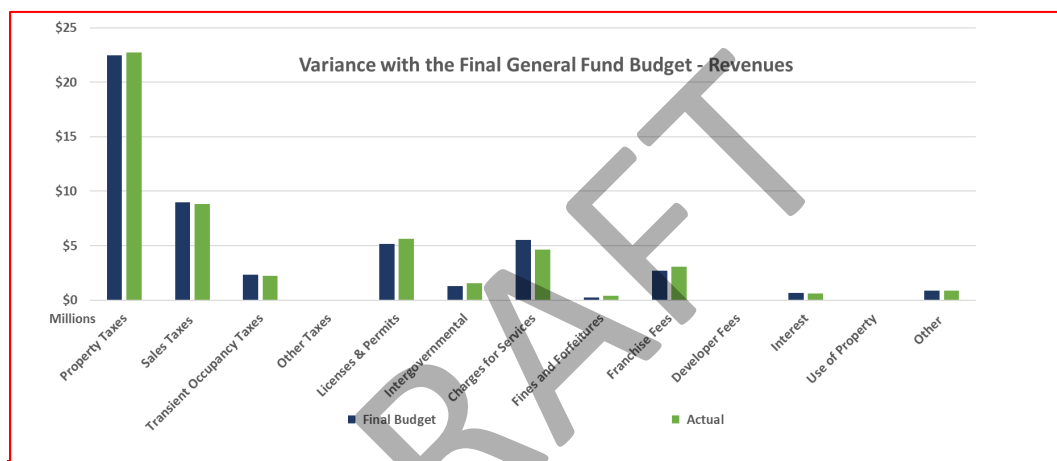
- \$0.9 million increase expenditure related to legal expenses, recruitment services, traffic signalization, special studies, retire medical and other miscellaneous services town wide;
- \$0.7 million expenditure increase for development related pass through activities;
- \$0.4 million for the Bersano Lane affordable unit repurchase and preparation of resell;
- \$0.3 million expenditure increase for Community Grants to recognize Council authorized General Fund Council Priorities – Economic Recovery reserve spending in the FY 2022/23;
- \$0.3 million expenditure increase for redepositing the first affordable loan payment to the Below Market Housing Deposit account; and
- ~~\$0.2 million expenditure increase to cover the cost for special studies related to Diversity, Equity, and Inclusion (DEI) prior year carry forward services; General Plan update Environment Impact Report; and the Housing Element related consultant work;~~
- ~~\$0.1 million expenditure increase to recognize increased cost related the retiree medical services due to additional recent retirements;~~
- ~~\$0.2 million temporary salary reimbursement from capital projects;~~
- ~~\$0.2 million for PG&E loan principal payment;~~
- ~~\$0.21 million to recognize the proceeds and authorize expenditures spend for Library operating grants.;~~
- ~~\$0.1 million increase for additional legal expenses;~~
- ~~\$64K expenditure increase for executive recruitment services;~~
- ~~\$53K expenditure increase for additional traffic signalization expenditures;~~
- ~~\$50K to recognize and spend the additional support from the Police Foundation;~~
- ~~\$32K expenditure increase for third party business license processing services;~~

- ~~• \$37K for landscape maintenance; and~~
- ~~• \$10K expenditure budget expense for park benches.~~

Variance with the Final General Fund Budget

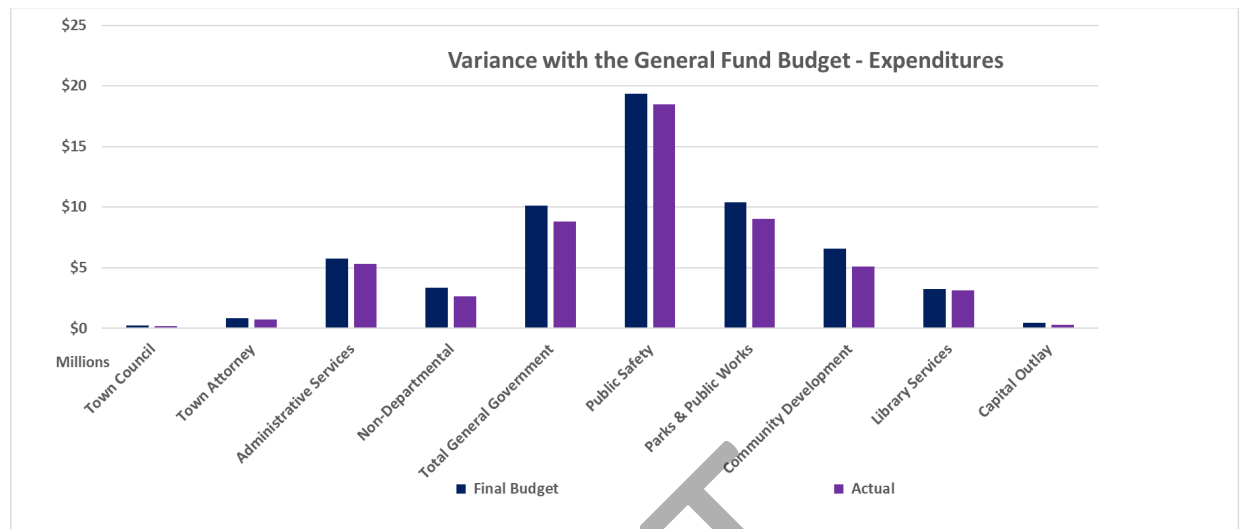
The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (GAAP) for Fiscal Year Ended June 30, 2023 reports an approximate overall favorable variance with the final budget of approximately \$5.7 million. This favorable variance was created largely by the net effect of the following factors:

- Actual revenues ended the fiscal year at \$0.3 million above final budgeted revenues.



- ~~• The \$0.3 million total variance represents a combined effect:~~
 - ~~○ \$0.5 million favorable variance in license and permit revenues;~~
 - ~~○ \$0.4 million favorable variance in franchise fees;~~
 - ~~○ \$0.3 million favorable variance in intergovernmental revenues;~~
 - ~~○ \$0.3 million favorable variance in property tax;~~
 - ~~○ \$0.2 million favorable variance in fines and forfeitures;~~
 - ~~○ \$7.5K unfavorable difference in use of property and other revenues;~~
 - ~~○ \$64K unfavorable variance in interest;~~
 - ~~○ \$0.1 million unfavorable variance in TOT;~~
 - ~~○ \$0.2 million unfavorable variance in sales tax;~~
 - ~~○ \$0.9 million unfavorable variance in charges for services.~~
- Actual expenditures ended the fiscal year at \$5.3 million below final budgeted expenditures. Significant factors affecting actual expenditures include: \$2.7 million savings in salaries and benefits in limited term vacancies throughout the organization (\$1.4 million in salaries, \$0.6 million in pension benefits, and \$0.7 million in other

benefits), \$1.4 million variance due to the timing of development and below market housing related pass-through activities, and \$1.2 million operational savings Town-wide.



- ~~Public safety expenditures had a favorable variance of approximately \$0.8 million. \$0.7 million in savings is reflective of limited term vacancies in Police Captain, Police Officers, Dispatchers, Police Record Specialist, Senior Parking Control Officer, and Police Records and Communication Manager positions, savings of \$79K in miscellaneous operating savings, and \$74K salary related internal service charges savings.~~
- ~~Community Development expenditures reflected a \$1.5 million favorable variance. \$1.1 million of the variance is related pass-through activities supported with developer deposits in the Below Market Program, development review; building inspection, and special studies activities. Corresponding pass-through revenues were lower as demonstrated above. Not counting the pass-through activities related savings, Community Development operating expenditures include \$0.5 million combined savings on vacancies and miscellaneous operating expenditures. Associate Planner and Permit Counter Technician positions were partially unfilled during the fiscal year.~~
- ~~Administrative Services reflected a favorable balance of approximately \$0.5 million in savings in salary and benefits due to partial year vacancies in the Deputy Clerk, Emergency Manager, Special Event Coordinator, IT Technician, Assistant Town Manager, Accountant, HR Analyst, and Finance and Accounting Manager positions.~~
- ~~Parks and Public Works reflects a total favorable variance of approximately \$1.4 million largely due to vacancies savings due to partial year vacancies in the Parks and Public Works Director, Senior Civil Engineer, Town Engineer, Assistant Engineer, Lead Maintenance Worker positions totaling \$0.9 million. The FY~~

~~2022/23 budget included a one-time 1 FTE hire ahead Lead Maintenance Position that was not filled due to delayed retirement. The position is defunded in FY 2023/24. The Department realized additional positive variance reflecting actual pass-through activities (\$0.3 million), and other miscellaneous operational savings (\$55K).~~

- ~~○ Library services reflected a favorable variance of \$0.2 million due mainly to salary and benefit savings from partial staff vacancies in the Librarian, Senior Library Page positions, and other temporary vacancies, and other miscellaneous operational savings.~~
- ~~○ Town Attorney reflected a favorable balance of approximately \$0.1 million in large measure due to savings in salary and benefits due to partial year vacancies of the Legal Administrative position, membership savings, and decreased travel and training activity.~~
- ~~○ Town Council reflected a favorable balance of approximately \$31K due to benefit savings, decreased travel and training activity, and other miscellaneous operational savings.~~

CAPITAL ASSETS

As of June 30, 2023, the Town's investment in capital assets for its governmental activity is recorded at \$132,679,773 (net of accumulated depreciation/amortization). The investment in capital assets includes land, buildings and improvements, infrastructure, construction in progress, subscription right of use asset, machinery and equipment. Capital assets increased \$4.9 million net of depreciation expense totaling approximately \$4.2 million for the year.

- \$3.4 million in street repair and resurfacing and curb and gutter work Town-wide;
- \$0.9 million in subscription right of use of asset by implementing GASB 96 subscription-based information technology agreements;
- \$0.6 million equipment adds Town-wide;
- \$0.3 million storm drain improvements;
- \$36K for park improvements; and
- \$4.5 million of construction in progress. ~~including:~~
 - ~~○ \$0.8 million for building replacement at Corporation Yard;~~
 - ~~○ \$0.7 million for downtown revitalization;~~
 - ~~○ \$0.6 million for Highway 17 capacity improvements;~~
 - ~~○ \$0.5 million for Town-wide traffic signal improvements;~~
 - ~~○ \$0.4 million for Library battery power supply;~~
 - ~~○ \$0.4 million for bridges;~~
 - ~~○ \$0.3 million for Adult Recreation Center HVAC and floor replacement;~~
 - ~~○ \$0.2 million for Enterprise Recourse Program implementation;~~

- ~~\$0.1 million for Highway 9 Los Gatos connection trail projects;~~
- ~~\$74K for curb and gutter work Town-wide;~~
- ~~\$73K in street repair in resurfacing;~~
- ~~\$57K equipment for fire suppression and IT disaster recovery;~~
- ~~\$52K in building improvements Town-wide;~~
- ~~\$44K in parking lots improvements;~~
- ~~\$17K Recreation Building ADA Restroom Improvements; and~~
- ~~\$14K for park improvements.~~

Capital Assets
Town of Los Gatos
For the Year Ended June 30, 2023

	Governmental Activities
Infrastructure	\$ 67,077,784
Subscription Right of Use Assets	713,438
Buildings	28,846,606
Land	26,066,103
Equipment	2,462,694
Construction in Progress	7,513,148
	<u>\$ 132,679,773</u>

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

LONG-TERM DEBT

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Town long-term debt is related to the PG&E on-bill financing loan used for facility efficiency project updates, totaling \$1.2 million at 6/30/2023. The long-term debt in the Successor Agency Trust Fund is related to the 2002 COP and 2010 COP, totaling \$11.7 million. Additional information on the Town's Long-Term Debt is found in Note 7 of this Financial Report.

ECONOMIC FACTORS, ~~AND~~ NEXT YEAR'S BUDGETS, AND RATES

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

During the development and adoption of the Town's FY 2023/24 budget, the Town Council and management considered the following factors:

- The FY 2023/24 ~~Proposed~~ **Adopted** Budget endeavored to maintain essential public services while controlling operational costs in light of the Five-Year Financial Forecast, which predicts

operating shortfalls in subsequent fiscal years. ~~Providing current service levels to the community in future fiscal years will require a strong return to pre-pandemic performance of the Town's economically sensitive revenues and/or revenue enhancements as identified as one of the Town Council's Strategic Priorities.~~

- For FY 2023/24, the ~~Proposed Adopted~~ Operating Budget was balanced utilizing two primary budget balancing strategies. The first was direction to all Departments to develop a status quo budget. To that end, the Departments programmed existing resources by either maintaining current structures or realigning operations to remain effective. This proved exceptionally difficult as vendor, supply, and other costs rose beyond FY 2022/23 levels. In addition, Departments were provided guidance to enhance capacity where necessary through limit-dated non-benefited personnel options when possible. The second strategy includes a 4.6% vacancy factor, while Council directed that staff continue to hire for all vacant positions. The 4.6% salary savings represents approximately \$1.7 million projected saving.
- ~~Several Strategic Priorities are not one time projects, but rather are ongoing commitments due to their critical significance to ensure the Town's fiscal sustainability, infrastructure stability, and the safety and quality of life for Los Gatos residents, businesses, and visitors. These commitments include continuing to address the Town's fiscal challenges; implementing the Comprehensive Parking Study; and fostering emergency preparedness and community wildfire resilience.~~
- In terms of capital projects, the Town Council stated its capital budget priorities to continue implementation of the Downtown Parking Roadmap, continue mobility improvements for all transportation modes, manage the vegetation on Town lands to protect against wildfire, and advance other needed improvements. All of these efforts support improving and enhancing transportation options, public safety, and quality of life within the context of prudent fiscal management.
- ~~Other Strategic Priorities will position the Town well for its future while celebrating the special aspects of Los Gatos. Such Priorities include continuing to enhance economic and community vitality; focusing on traffic safety for all users; and investing in key wildfire mitigation.~~
- ~~Specific trends affecting the fund balance forecast include:~~
 - ~~General property tax collections represent approximately 34.9% (not including the State's property tax "backfill" shifts) of the Town's General Fund revenues. Property tax collections are expected to increase 3.6% in FY 2023/24 from the prior year's estimated tax collections. This increase reflects the continued strong property assessment values through the Town. This forecast is based on data from the Santa Clara County Tax Assessor's Office. The Town closely monitors its actual collection and other legislative changes regarding property tax.~~

- ~~The Town anticipates an increase in sales tax for FY 2023/24. General sales tax estimates of \$7.9 million and \$1.3 million in dedicated district sales tax revenue for FY 2023/24 were budgeted reflecting a 2.2% combined increase from the prior year's expected sales tax budget.~~
- ~~The Town's investment portfolio yield was 3.19% as of June 30, 2023 which trended significantly higher than the average yield of 1.37% of June 30, 2022. Prevailing interest rates are rising based on Federal Reserve actions.~~
- ~~Transient Occupancy Tax (TOT) is expected to increase by 3% from FY 2022/23 estimated revenues. The Town's TOT revenue, like other municipalities, was impacted heavily by the pandemic. Since FY 2021/22, people started to travel again, increasing the revenues year by year. The Town's TOT revenue has historically been primarily driven by business travel. During the pandemic, TOT experienced the most significant percentage decline. Due to a rebound in leisure "staycation" travel and modest improvements in business travel, current TOT collections are trending higher than anticipated and average occupancy rates are increasing as well.~~
- ~~The Town's pension plans over the past several decades, like all other CalPERS participants, have experienced volatile investment returns, changes in actuarial assumptions, and demographic shifts which have outweighed any positive plan experiences. To address this unfunded status, the Town took proactive steps including initiating the prefunding of OPEB obligations, budgeting and programming additional discretionary pension payments to accelerate reduction of unfunded liabilities, and 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 actual realized investment returns, further changes in actuarial assumptions or lowering the discount rate. The Town's net pension liability is \$28.1 million for the safety cost sharing plan and \$31.7 million for the miscellaneous plan based upon data from CalPERS as of 6/30/2022.~~
- ~~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 6.8% to 5.8% would increase the total net pension liability for both Miscellaneous and Safety by \$31.5 million. Conversely, an increase in the discount rate from 6.8% to 7.8% would decrease the total net pension liability for both Miscellaneous and Safety by \$25.9 million.~~
- ~~In addition, CalPERS provides a hypothetical termination liability estimate of the plans should the contract with CalPERS be terminated. The plan liability on a termination basis is calculated differently from the plans' ongoing funding liability. Since no future employer contributions would be made in the hypothetical termination, benefit payments are secured by risk-free assets. For the Miscellaneous plan, a 2.5% termination~~

~~return rate results in a \$156.6 million termination liability. For the Safety Classic and PEPPA plans, a 2.25% termination return rate results in a \$161.5 million termination liability.~~

- ~~○ For detailed information about the Town employees' retirement plan please refer to Note 11 of the Notes to Basic Financial Statements Section.~~

REQUESTS FOR INFORMATION

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

DRAFT

Basic Financial Statements

DRAFT

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS
STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES**

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

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

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF NET POSITION
JUNE 30, 2023

Item 9.

	Governmental Activities
ASSETS	
Cash and investments	\$ 74,859,048
Restricted cash and investments	1,574,488
Receivables:	
Accounts	2,721,849
Interest	349,806
Intergovernmental	2,438,400
Other assets	153,868
Land held for resale	344,338
Long-term leases receivable	1,909,618
Long-term notes receivables	1,137,752
Capital Assets:	
Nondepreciable	26,066,102
Depreciable, net of accumulated depreciation	106,613,671
Total Assets	<u>\$ 218,168,940</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension adjustments	\$ 25,220,232
OPEB adjustments	4,306,030
Total Deferred Outflows of Resources	<u>\$ 29,526,262</u>
LIABILITIES	
Accounts payable	\$ 2,134,177
Accrued payroll and benefits	447,965
Interest payable	27,915
Due to other governments	69,895
Unearned Revenue	4,201,551
Deposits	6,849,378
Claims payable	2,126,708
Long-term liabilities:	
Due within one year	
Compensated absences	292,795
Subscription liabilities	149,154
Loans payable	156,034
Due in more than one year	
Net OPEB liability	7,028,633
Net pension liabilities	59,866,665
Compensated absences	2,868,452
Subscription liabilities	445,781
Loans payable	1,040,223
Total Liabilities	<u>\$ 87,705,326</u>
DEFERRED INFLOWS OF RESOURCES	
Leases	1,222,981
Pension adjustments	3,126,711
OPEB adjustments	2,117,922
Total Deferred Inflows of Resources	<u>\$ 6,467,614</u>
NET POSITION	
Net investment in capital assets	\$ 130,888,581
Restricted for:	
Library	530,174
Capital projects	8,328,572
Land held for resale	44,338
Lighting and landscape repairs and maintenance	176,966
Pensions	1,400,163
VTA	494,826
Worker's compensation claims	115,981
Total Restricted Net Position	<u>11,091,020</u>
Unrestricted	<u>11,542,661</u>
Total Net Position	<u>\$ 153,522,262</u>

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

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

TOWN OF LOS GATOS
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
General government	\$ 10,522,568	\$ 2,635,527	\$ -	\$ -	\$ 2,635,527	\$ (7,887,041)
Public safety	17,428,923	1,846,312	4,622,373	-	6,468,685	(10,960,238)
Parks and public works	12,258,626	3,590,936	1,735,608	3,915,175	9,241,719	(3,016,907)
Community development	5,215,961	3,971,336	616,937	-	4,588,273	(627,688)
Library services	3,653,642	2,039	174,663	-	176,702	(3,476,940)
Sanitation	208,262	359,950	-	-	359,950	151,688
Interest and fees	29,221	-	-	-	-	(29,221)
Total Governmental Activities	\$ 49,317,203	\$ 12,406,100	\$ 7,149,581	\$ 3,915,175	\$ 23,470,856	(25,846,347)
General revenues:						
Taxes:						
Property taxes						22,746,842
Sales taxes						8,806,477
Franchise taxes						3,074,624
Transient occupancy taxes						2,228,190
Other taxes						63,818
Motor vehicle in lieu						34,406
Developer fees						614,820
Investment earnings:						
Investment earnings						794,390
Unrealized gains (losses)						3,197
Miscellaneous						1,029,864
Total general revenues						39,396,628
Special items:						
Settlements						1,565,000
Total general revenues and special items						40,961,628
Change in Net Position						15,115,281
Net Position - Beginning						138,406,981
Net Position - Ending						\$ 153,522,262

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

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023****FUND FINANCIAL STATEMENTS &
MAJOR GOVERNMENTAL FUNDS**

Fund Financial Statements:

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

Major Governmental Funds:

The Town determined that the following funds were major funds for the year ended June 30, 2023. 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.

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

TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2023

Item 9.

	General	Appropriated Reserves	ARPA	Other Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash & investments	\$ 33,591,832	\$ 23,752,014	\$ -	\$ 9,514,805	\$ 66,858,651
Restricted cash & investments	1,400,163	-	-	58,344	1,458,507
Receivables:					
Accounts	1,482,426	1,078,834	-	85,151	2,646,411
Interest	349,806	-	-	-	349,806
Intergovernmental	1,885,545	347,316	-	205,539	2,438,400
Other assets	153,868	-	-	-	153,868
Due from other funds	1,832	-	-	-	1,832
Land held for resale	344,338	-	-	-	344,338
Leases receivable	-	241,506	-	319,957	561,463
Long term note receivable	1,059,000	-	-	78,752	1,137,752
Total Assets	\$ 40,268,810	\$ 25,419,670	\$ -	\$ 10,262,548	\$ 75,951,028
LIABILITIES					
Accounts payable	\$ 616,131	\$ 1,257,903	\$ -	\$ 16,718	\$ 1,890,752
Accrued payroll and benefits	445,631	-	-	2,334	447,965
Due to other governments	69,836	-	-	-	69,836
Unearned revenue	2,759,530	1,377,226	-	64,795	4,201,551
Deposits	6,849,378	-	-	-	6,849,378
Due to other funds	-	-	-	1,832	1,832
Total Liabilities	10,740,506	2,635,129	-	85,679	13,461,314
DEFERRED INFLOWS OF RESOURCES					
Leases	-	235,816	-	269,670	505,486
Unavailable revenue	-	798,700	-	-	798,700
Total Deferred Inflows of Resources	-	1,034,516	-	269,670	1,304,186
FUND BALANCE					
Nonspendable:					
Loans receivable	159,000	-	-	-	159,000
Leases receivable	-	5,690	-	50,287	55,977
Restricted for:					
Library	-	-	-	530,174	530,174
Capital projects	-	-	-	8,328,572	8,328,572
Land held for resale	44,338	-	-	-	44,338
Repairs and maintenance	-	-	-	176,966	176,966
Pensions	1,400,163	-	-	-	1,400,163
VTA	-	494,826	-	-	494,826
Committed to:					
Budget stabilization	6,129,774	-	-	-	6,129,774
Catastrophic	6,129,775	-	-	-	6,129,775
Pensions/OPEB	300,000	-	-	-	300,000
Measure G 2018 district sales tax	590,581	1,769,057	-	-	2,359,638
Special revenue funds	-	-	-	821,200	821,200
Assigned to:					
Open Space	410,000	152,000	-	-	562,000
Parking	-	100,000	-	-	100,000
Sustainability	140,553	-	-	-	140,553
Capital/Special projects	10,359,577	19,178,452	-	-	29,538,029
Carryover encumbrances	37,698	-	-	-	37,698
Comcast PEG	-	50,000	-	-	50,000
ERAF Risk	689,608	-	-	-	689,608
Economic recovery	1,556,614	-	-	-	1,556,614
Compensated Absences	1,580,623	-	-	-	1,580,623
Total Fund Balances	29,528,304	21,750,025	-	9,907,199	61,185,528
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 40,268,810	\$ 25,419,670	\$ -	\$ 10,262,548	\$ 75,951,028

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

TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET
POSITION – GOVERNMENTAL ACTIVITIES
JUNE 30, 2023

Fund Balance - Total Governmental Funds \$ 61,185,528

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

CAPITAL ASSETS

Capital assets used in the Governmental Activities are not financial resources and, therefore, are not reported in the Governmental Funds. 131,966,335

ALLOCATION OF INTERNAL SERVICE FUND NET POSITION

Internal service funds are used by management to charge the cost of management of certain activities such as insurance, central services and maintenance to individual governmental funds. The net current assets of the internal service funds are therefore included as Governmental Activities in the Statement of Net Position. 6,542,872

DEFERED OUTFLOWS AND INFLOWS OF RESOURCES

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

Deferred outflows of resources:

PERS Miscellaneous Plan adjustments	\$ 10,459,160	
PERS Safety Plan adjustments	14,761,072	
OPEB plan adjustments	<u>4,306,030</u>	29,526,262

Deferred Inflows of resources:

PERS Miscellaneous Plan adjustments	\$ (160,064)	
PERS Safety Plan adjustments	(2,966,647)	
OPEB plan adjustments	<u>(2,117,922)</u>	(5,244,633)

DEFERRED INFLOWS OF RESOURCES

Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds. 798,700

LONG-TERM LIABILITIES

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

Loans payable	\$ (1,196,257)	
Net Pension Liabilities	(59,866,665)	
Net OPEB Liability	(7,028,633)	
Compensated absences	<u>(3,161,247)</u>	(71,252,802)

Net Position - Governmental Activities \$ 153,522,262

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

**TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

TOWN OF LOS GATOS GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES FOR THE FISCAL YEAR ENDED JUNE 30, 2023					
	General	Appropriated Reserves	ARPA	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 22,743,087	\$ -	\$ -	\$ 38,161	\$ 22,781,248
Sales Taxes	8,806,477	-	-	-	8,806,477
Transient Occupancy Taxes	2,228,190	-	-	-	2,228,190
Other Taxes	6,454	-	-	29,042	35,496
Licenses & Permits	5,630,362	181,533	-	521,780	6,333,675
Intergovernmental	1,553,396	3,358,063	3,614,872	1,619,489	10,145,820
Charges for Services	4,646,705	1,072,009	-	-	5,718,714
Fines and Forfeitures	416,950	-	-	-	416,950
Franchise Fees	3,074,624	-	-	-	3,074,624
Developer Fees	-	614,820	-	-	614,820
Interest	605,789	44,198	-	147,595	797,582
Use of Property	38,126	91,284	-	108,237	237,647
Other	859,571	-	-	125,617	985,188
Total Revenues	50,609,731	5,361,907	3,614,872	2,589,921	62,176,431
EXPENDITURES					
Current:					
General Government	8,828,779	-	-	-	8,828,779
Public Safety	18,446,048	-	-	-	18,446,048
Parks and Public Works	8,998,088	-	-	86,318	9,084,406
Community Development	5,065,412	-	-	-	5,065,412
Library Services	3,096,486	-	-	111,541	3,208,027
Sanitation and Other	-	-	-	204,097	204,097
Capital Outlay	300,000	6,722,633	-	1,894,442	8,917,075
Debt service:					
Principal	156,034	-	-	-	156,034
Total Expenditures	44,890,847	6,722,633	-	2,296,398	53,909,878
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,718,884	(1,360,726)	3,614,872	293,523	8,266,553
OTHER FINANCING SOURCES (USES)					
Settlements	-	1,565,000	-	-	1,565,000
Gain from sale of assets	2,162	-	-	-	2,162
Transfers in	4,153,408	7,732,614	-	-	11,886,022
Transfers (out)	(7,242,939)	(427,616)	(3,614,872)	(110,920)	(11,396,347)
Total Other Financing Sources (Uses)	(3,087,369)	8,869,998	(3,614,872)	(110,920)	2,056,837
NET CHANGES IN FUND BALANCES	2,631,515	7,509,272	-	182,603	10,323,390
BEGINNING FUND BALANCES	26,896,789	14,240,753	-	9,724,596	50,862,138
ENDING FUND BALANCES	\$ 29,528,304	\$ 21,750,025	\$ -	\$ 9,907,199	\$ 61,185,528

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

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 10,323,390

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)	\$ 8,598,811	
Current year depreciation	<u>(3,950,198)</u>	4,648,613

Gains and losses from the disposal of capital assets are not considered current financial resources and are not recorded in the governmental fund statement of revenues and expenditures but are recorded in the government-wide statement of activities because they are economic resources.	(452,844)
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LONG-TERM DEBT PROCEEDS AND PAYMENTS

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

Certificates of participation	156,034
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UNAVAILABLE REVENUE

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

293,000

COMPENSATED ABSENCES

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

(122,954)

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.

719,946

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.

1,247,506

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

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

(1,697,410)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 15,115,281

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

TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,907,894	\$ 22,484,118	\$ 22,743,087	\$ 258,969
Sales Taxes	9,174,944	8,959,134	8,806,477	(152,657)
Transient Occupancy Taxes	1,642,460	2,348,547	2,228,190	(120,357)
Other Taxes	7,000	7,000	6,454	(546)
Licenses & Permits	4,122,529	5,140,684	5,630,362	489,678
Intergovernmental	1,051,814	1,273,910	1,553,396	279,486
Charges for Services	4,257,261	5,540,465	4,646,705	(893,760)
Fines and Forfeitures	201,750	226,750	416,950	190,200
Franchise Fees	2,493,870	2,716,470	3,074,624	358,154
Interest	432,947	670,021	605,789	(64,232)
Use of Property	41,211	41,211	38,126	(3,085)
Other	1,203,657	863,964	859,571	(4,393)
Total Revenues	45,537,337	50,272,274	50,609,731	337,457
EXPENDITURES				
Current:				
General Government:				
Town Council	217,238	217,240	186,337	30,903
Town Attorney	707,555	811,427	699,143	112,284
Administrative Services	5,298,494	5,759,393	5,302,281	457,112
Non-Departmental	3,194,526	3,334,931	2,641,018	693,913
Total General Government	9,417,813	10,122,991	8,828,779	1,294,212
Public Safety	19,225,985	19,331,330	18,446,048	885,282
Parks & Public Works	9,798,967	10,368,194	8,998,088	1,370,106
Community Development	5,772,004	6,543,199	5,065,412	1,477,787
Library Services	3,139,449	3,247,730	3,096,486	151,244
Capital Outlay	-	435,416	300,000	135,416
Debt Service:				
Principal	-	156,034	156,034	-
Total Expenditures	47,354,218	50,204,894	44,890,847	5,314,047
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,816,881)	67,380	5,718,884	5,651,504
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,162	1,562
Transfers In	2,183,817	3,381,544	4,153,408	771,864
Transfers Out	(3,006,978)	(5,842,011)	(7,242,939)	(1,400,928)
Total Other Financing Sources (Uses)	(822,561)	(2,459,867)	(3,087,369)	(627,502)
NET CHANGES IN FUND BALANCE	\$ (2,639,442)	\$ (2,392,487)	2,631,515	\$ 5,024,002
BEGINNING FUND BALANCE			26,896,789	
ENDING FUND BALANCE			<u>\$ 29,528,304</u>	

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

TOWN OF LOS GATOS, CALIFORNIA
ARPA FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Intergovernmental	\$ 1,304,696	\$ 3,614,872	\$ 3,614,872	\$ -
Total Revenues	1,304,696	3,614,872	3,614,872	-
EXPENDITURES				
Current:	-	-	-	-
Total Expenditures	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	1,304,696	3,614,872	3,614,872	-
OTHER FINANCING SOURCES (USES)				
Operating transfers in	-	-	-	-
Operating transfers (out)	(1,304,696)	(3,614,872)	(3,614,872)	-
Total Other Financing Sources (Uses)	(1,304,696)	(3,614,872)	(3,614,872)	-
CHANGE IN FUND BALANCE	\$ -	\$ -	-	\$ -
BEGINNING FUND BALANCE			-	
ENDING FUND BALANCE			\$ -	

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

**TOWN OF LOS GATOS, CALIFORNIA
ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Item 9.

**PROPRIETARY FUNDS -
INTERNAL SERVICE FUNDS**

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

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

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TOWN OF LOS GATOS, CALIFORNIA
PROPRIETARY FUNDS -
STATEMENT OF NET POSITION
JUNE 30, 2023

Item 9.

	Governmental Activities Internal Service Funds
ASSETS	
Current Assets:	
Cash & investments	\$ 8,000,397
Restricted cash & investments	115,981
Accounts Receivable	75,438
Total current assets	<u>8,191,816</u>
Noncurrent Assets:	
Leases receivable	1,348,155
Subscription assets, net	713,438
Total noncurrent assets	<u>2,061,593</u>
Total Assets	<u>\$ 10,253,409</u>
LIABILITIES	
Current Liabilities:	
Accounts payable	\$ 243,425
Due to other governments	59
Interest payable	27,915
Subscription liabilities - Current	149,154
Total current liabilities	<u>420,553</u>
Noncurrent liabilities:	
Claims payable	2,126,708
Subscription liabilities	445,781
Total noncurrent liabilities	<u>2,572,489</u>
Total Liabilities	<u>\$ 2,993,042</u>
DEFERRED INFLOWS OF RESOURCES	
Leases	<u>\$ 717,495</u>
NET POSITION	
Net Investment in capital assets	\$ 118,503
Restricted for workers compensation claims	115,981
Unrestricted	6,308,388
Total Net Position	<u>\$ 6,542,872</u>

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

**TOWN OF LOS GATOS, CALIFORNIA
 PROPRIETARY FUNDS -
 STATEMENT OF REVENUES, EXPENSES
 AND CHANGES IN NET POSITION
 FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	Governmental Activities Internal Service Funds
OPERATING REVENUES	
Charges for services	\$ 3,695,444
Interest	5
Use of money and property	122,317
Other local taxes	28,322
Other revenue and reimbursements	247,409
Total Operating Revenues	<u>4,093,497</u>
OPERATING EXPENSES	
Insurance expenses	2,901,632
Services and Supplies	2,167,957
Depreciation/amortization	202,422
Total Operating Expenses	<u>5,272,011</u>
Operating Income (Loss)	(1,178,514)
NONOPERATING EXPENSES	
Interest expense	<u>(29,221)</u>
Income (loss) before transfers	<u>(1,207,735)</u>
Transfers in	243,325
Transfers out	<u>(733,000)</u>
Net transfers	<u>(489,675)</u>
Change in Net Position	(1,697,410)
BEGINNING NET POSITION	<u>8,240,282</u>
ENDING NET POSITION	<u>\$ 6,542,872</u>

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

**TOWN OF LOS GATOS, CALIFORNIA
PROPRIETARY FUNDS -
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Item 9.

	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 3,932,853
Payments to suppliers	(4,843,598)
Insurance reimbursements	165,757
Claims paid	529,919
Net cash provided (used) by operating activities	<u>(215,069)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers In	243,325
Transfers Out	(733,000)
Net cash provided (used) by noncapital financing activities	<u>(489,675)</u>
CASH FLOWS FROM CAPITAL RELATED FINANCING ACTIVITIES	
Interest paid	(1,306)
Acquisition of subscription assets	(320,925)
Net cash provided (used) by capital related financing activities	<u>(322,231)</u>
Net Increase(Decrease) in Cash and Investments	(1,026,975)
Cash and investments - beginning of year	9,143,353
Cash and investments - end of year	<u>\$ 8,116,378</u>
Reconciliation of Operating Income to Cash Flows	
from Operating Activities:	
Operating Income	\$ (1,178,514)
Adjustments to reconcile operating income to cash flows	
from operating activities:	
Depreciation/amortization	202,422
Change in assets and liabilities:	
Accounts receivables	(29,636)
Leases receivable	146,566
Deferred inflows of resources	(111,817)
Accounts payable	13,308
Due to other governments	9
Claims payable	742,593
Cash Flows From Operating Activities	<u>\$ (215,069)</u>
Cash and cash equivalents:	
Cash and investments	\$ 8,000,397
Restricted cash and investments	115,981
Total cash and cash equivalents	<u>\$ 8,116,378</u>

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

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

FIDUCIARY FUNDS

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

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

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**TOWN OF LOS GATOS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2023**

	RDA Successor Agency
ASSETS	
Cash and investments	\$ 1,954,332
Restricted cash and investments	2,023,185
Loans receivable	622,082
Capital assets:	
Depreciable, net of accumulated depreciation	1,118,623
 Total Assets	 <u>\$ 5,718,222</u>
LIABILITIES	
Accounts payable	\$ 24
Interest payable	212,406
Long-term debt:	
Due within one year	1,415,000
Due in more than one year	10,278,580
 Total Liabilities	 <u>\$ 11,906,010</u>
NET POSITION	
Restricted for RDA	<u>\$ (6,187,788)</u>
 Total Net Position	 <u>\$ (6,187,788)</u>

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

**TOWN OF LOS GATOS
PRIVATE PURPOSE TRUST FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	RDA Successor Agency
ADDITIONS	
Property taxes	\$ 1,942,119
Investment earnings	80,795
	<hr/>
Total Additions	2,022,914
	<hr/>
DEDUCTIONS	
Program expenses of former RDA	5,640
Interest and fiscal agency expenses of RDA	495,843
Depreciation expense	101,693
	<hr/>
Total Deductions	603,176
	<hr/>
CHANGE IN NET POSITION	1,419,738
	<hr/>
NET POSITION - BEGINNING OF YEAR	(7,607,526)
	<hr/>
NET POSITION - END OF YEAR	<u><u>\$ (6,187,788)</u></u>

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

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Notes to Basic Financial Statements

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TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

Item 9.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Financial Reporting Entity

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

The Town is largely a residential community located in the foothills of the Santa Cruz Mountains and was incorporated as a municipal corporation in 1887. The Town’s population as of January 1, 2023, was 33,102.

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

B. Description of Blended Component Units

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

C. Description of Joint Ventures and Public Entity Risk Pool

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

D. Basis of Presentation

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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

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

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

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

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

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

E. Major Funds

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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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.

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

The Town also reports the following fund types:

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

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

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

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

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

F. Basis of Accounting

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

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable*

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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

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

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

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

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

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

Pensions - For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

Other Postemployment Benefit (OPEB) Expense

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

Valuation Date	June 30, 2021
Measurement Date	June 30, 2022
Measurement Period	July 1, 2021 to June 30, 2022

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

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. In determining this amount, three valuation techniques are available:

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

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

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

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

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

Capital Assets - Capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets or donated works of art and similar items should be reported at acquisition value rather than fair value. Also, note that capital assets received in a service concession arrangement should be reported at acquisition value rather than fair value. Capital assets, including infrastructure, are recorded if acquisition or construction costs exceeds \$10,000.

As required by GASB, the Town depreciates and amortizes capital assets with limited useful lives over their estimated useful lives. The purpose of depreciation/amortization 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/amortizes 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.

Intangible right-to-use lease assets are amortized over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the university has determined is reasonably certain of being exercised, then the lease asset is amortized over the useful life of the

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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underlying asset. Intangible right-to-use subscription assets are amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

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.

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

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

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

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

The Town's liability for compensated absences is determined annually. For all governmental funds, amounts expected to be paid out of current financial resources are recorded as liabilities of each fund;

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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the long-term portion is recorded in the Statement of Net Position. The changes of the compensated absences were as follows:

Beginning Balance	\$ 3,038,293
Additions	1,118,885
Payments	<u>(995,931)</u>
Ending Balance	<u>\$ 3,161,247</u>
Compensated Absences Current Portion	<u>\$ 292,795</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 related to terminated employees are reported in the fund financial statements.

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

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

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

Subscription Based Information Technology Arrangements - The Town recognizes subscription liabilities with an initial, individual value of \$100,000 or more. The Town uses its estimated incremental borrowing rate to measure subscription liabilities unless it can readily determine the interest rate in the arrangement. The Town's estimated incremental borrowing rate is calculated as described above. The Town's estimated incremental borrowing rate is based on its most recent public debt issuance.

Deferred Outflows/Deferred Inflows of Resources - Deferred outflows of resources is a consumption of net assets 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.

TOWN OF LOS GATOS, CALIFORNIA
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Deferred inflows of resources is an acquisition of net assets by the Town that is applicable to a future reporting period, for example, unavailable revenue.

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

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

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

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

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:

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

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

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

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

Unassigned includes fund balances within the funds which have not been classified within the above-mentioned categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

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unassigned fund balance amount. However, in governmental funds other than the General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

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

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

Subsequent Events - Management has considered subsequent events through November 27, 2023, 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 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:

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

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

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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 amendments were not material in relation to original appropriations.

Excess of Expenditures over Appropriations - There were no significant expenditures in excess of budget during for the year ended June 30, 2023.

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

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

G. Accounting and Reporting Changes

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

During the year, the Town implemented GASB Statement No. 96, *Subscription-based Information Technology Arrangements*. GASB Statement No. 96 is an accounting pronouncement issued by the Governmental Accounting Standards Board (GASB) that provides guidance on how the costs and investments for subscription-based information technology arrangements (SBITAs) are accounted for and disclosed by governmental entities. This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in

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Statement No. 87, *Leases*, as amended. As a result, the Town recorded intangible right of use subscription assets of \$915,860 and corresponding subscription lease liabilities of \$653,681. The details of the related assets and liabilities can be found in Notes 6 and 8.

H. Upcoming Accounting and Reporting Changes

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

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

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

GASB Statement No. 101, *Compensated Absences*

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

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

This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment

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or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.

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

NOTE 2 - CASH AND INVESTMENTS

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

Cash and Investments Defined

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

Cash Deposits with Banks and Custodial Credit Risk

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

The bank balance of the Town's cash deposits was \$14,306,396 and the carrying amount was \$14,200,094 as of June 30, 2023. The bank balance and the carrying amount differed due to deposits in transit and outstanding checks.

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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 under the day to day administration of the State Treasurer. As of June 30, 2023, LAIF had approximately \$180 billion in investments that were fully invested in non-derivative financial products. These investments are described as follows:

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

Risk Disclosures

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

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

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

Concentration of Credit Risk is the risk that the Town's investments are exposed because the types of investments have been too limited. The Town's Policy states that, with the exception of US Treasury securities and LAIF, no more than 50% of the Town's total investment portfolio will be invested in one single security type or with a single financial institution. The Town was in compliance with this policy as of June 30, 2023.

The following table summarizes the Towns policy related to maturities and concentration of investments:

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

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The following is a summary of the Town's Cash and Investments (stated at fair value) as of June 30, 2023:

Description	Available for Operations	Restricted	Total	Concentration of Credit Risk	Rating	Input Level	Time to Mature (Years)	Weighted Average Maturity
Government Bonds	17,124,763	-	17,124,763	27.35%	n/a	2	0-3	1.16
Government Agencies	15,611,400	-	15,611,400	24.93%	n/a	2	0-4	1.90
Corporate Bonds	13,042,387	-	13,042,387	20.83%	A3	2	0-3	1.54
Mutual Funds	56,542	-	56,542	0.09%	Not Rated	2	n/a	n/a
LAIF	16,775,794	-	16,775,794	26.79%	Not Rated	n/a	n/a	n/a
Total Investments	62,610,886	-	62,610,886	100.00%				
Cash Deposits with Banks	14,182,701	2,197,510	16,380,211					
Money Market Accounts	17,393	-	17,393					
Pension Trust	-	1,400,163	1,400,163					
Cash on Hand at Town	2,400	-	2,400					
Total Cash and Investments	76,813,380	3,597,673	80,411,053					

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

Description	Total Town	Fiduciary Funds	Totals
Cash and Investments Available for Operations	\$ 74,859,048	\$ 1,954,332	\$ 76,813,380
Restricted Cash and Investments	1,574,488	2,023,185	3,597,673
Total Cash and Investments	\$ 76,433,536	\$ 3,977,517	\$ 80,411,053

NOTE 3 - LONG-TERM NOTES RECEIVABLE

The Town had the following long-term notes receivable as of June 30, 2023:

Description	Interest Rate	Maturity	Balance
General Fund:			
Rehab Loan to Charities	Various	Various	\$ 159,000
BMP Loans	Various	Various	900,000
Total General Fund			1,059,000
Community Development Block Grant Fund (CDBG):			
Housing Conservation	0-5%	Various	78,752
Total CDBG			78,752
Total Long-Term Notes Receivable - Government-Wide Statement of Net Position			1,137,752
Successor Agency Affordable Housing:			
Project Match	Various	Various	622,082
Total Long-Term Notes Receivable			\$ 1,759,834

BMP Loans - The purpose of the Below Market Price (BMP) Housing Program is to provide adequate housing for Los Gatos residents, regardless of age, income, race, or ethnic background. As required by the State, the Town plans and facilitates the construction of housing adequate for future populations

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consistent with environmental limitations and in a proper relationship to community facilities, open space, transportation, and small-town character.

Active Home Loans and Housing Conservation Loans - The Town used 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, 2023, no interest or principal payments have been made.

NOTE 4 - LEASES RECEIVABLE

In March of 2021, the Town entered into a five-year lease with Tesla Motor Cars (Tesla) allowing Tesla to use Town property at the North Lot for charging stations. Under the lease, Tesla pays the Town \$96,000 per year during the term of the lease. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 2%. The outstanding balance on the lease at year end was \$241,506.

In January of 2010, the Town entered into a twenty-year lease with the Los Gatos Saratoga Recreation (LGS) allowing LGS to use the property at 123 East Main Street. Under the lease, LGS paid the Town \$19,950 per year at the beginning of the lease. After cumulative CPI adjustments, the payment in the final year of the lease will be \$30,216. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 6.6%. The outstanding balance on the lease at year end was \$148,858.

In January of 2010, the Town entered into a twenty-year lease with the Los Gatos Saratoga Recreation (LGS) allowing LGS to use the property at 208 East Main Street. Under the lease, LGS paid the Town \$90,000 per year at the beginning of the lease. After cumulative CPI adjustments, the payment in the final year of the lease will be \$243,435. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 6.6%. The outstanding balance on the lease at year end was \$1,199,297.

In December of 2022, the Town entered into a fifty-five-month lease with CineLux Theaters allowing CineLux Theaters to use the Los Gatos Theatre building. Under the lease, CineLux Theaters pays the Town up to \$120,000 per year during the term of the lease. The lease receivable is measured as the present value of the future minimum rent payments expected to be received during the lease term at a discount rate of 5.99%. The outstanding balance on the lease at year end was \$319,957.

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The following summarizes the leases as of June 30, 2023:

Description	Tesla		LGS 123 E. Main St		LGS 208 E. Main St	
	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources
Beginning Balance	\$ 331,696	\$ 327,100	\$ 165,056	\$ 96,396	\$ 1,329,665	\$ 732,916
Additions	-	-	-	-	-	-
Current Amortization	-	(91,284)	-	(12,997)	-	(98,820)
Current Principal Payments	(90,190)	-	(16,198)	-	(130,368)	-
Ending Balance	\$ 241,506	\$ 235,816	\$ 148,858	\$ 83,399	\$ 1,199,297	\$ 634,096

Description	Los Gatos Theatre		Totals	
	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources
Beginning Balance	\$ -	\$ -	\$ 1,826,417	\$ 1,156,412
Additions	319,957	308,997	319,957	308,997
Current Amortization	-	(39,327)	-	(242,428)
Current Principal Payments	-	-	(236,756)	-
Ending Balance	\$ 319,957	\$ 269,670	\$ 1,909,618	\$ 1,222,981

NOTE 5 - INTERFUND TRANSACTIONS

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2023 were as follows:

Transfers Out			Transfers In		
Opinion Unit	Program Title	Amount	Opinion Unit	Program Title	Description
General Fund	Non-Departmental	\$ 3,006,978	Appropriated Reserves	GFAR	Adopted Budget Support
General Fund	Non-Departmental	463,572	Appropriated Reserves	Downtown Revitalization	Parklets
General Fund	Non-Departmental	243,325	Internal Service	Facilities	Rent Waivers
General Fund	Non-Departmental	2,900,000	Appropriated Reserves	GFAR	Capital projects
General Fund	Measure G Program	629,064	Appropriated Reserves	GFAR	Capital projects
Nonmajor	Blackwell District	460	General	Non-Departmental	Admin Support
Nonmajor	Kennedy Meadows	1,510	General	Non-Departmental	Admin Support
Nonmajor	Gemini Court	610	General	Non-Departmental	Admin Support
Nonmajor	Santa Rosa Heights	660	General	Non-Departmental	Admin Support
Nonmajor	Vasona Heights	1,430	General	Non-Departmental	Admin Support
Nonmajor	Hillbrook Drive	250	General	Non-Departmental	Admin Support
ARPA	ARPA	3,614,872	General	Patrol	Revenue loss, public safety
Appropriated Reserves	GFAR	102,000	General	Non-Departmental	Admin Support
Appropriated Reserves	GFAR	97,808	General	Town Engineering	Engineering Support
Appropriated Reserves	GFAR	217,808	General	PPW Admin	Engineering Support
Appropriated Reserves	Traffic Mitigation	10,000	General	Non-Departmental	Admin Support
Nonmajor	Gas Tax	106,000	General	Non-Departmental	Admin Support
Internal Service	Information Technology	700,000	Appropriated Reserves	GFAR	Ent. Res. Planning Software Update
Internal Service	Information Technology	33,000	Appropriated Reserves	ERP Upgrade	Ent. Res. Planning Software Update
Total Transfers		\$ 12,129,347			

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Inter-fund Receivables and Payables - Amounts due to or due from other funds reflect inter-fund balances for services rendered or short-term loans expected to be repaid in the next fiscal year. Advances to or from other funds are long-term loans between funds that are to be repaid in their entirety over several years.

NOTE 6 - CAPITAL ASSETS

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

	Balance at June 30, 2022	Additions	Retirements	Balance at June 30, 2023
Nondepreciable/Amortizable Capital Assets:				
Land	\$ 26,066,103	\$ -	\$ -	\$ 26,066,103
Construction in Progress	7,778,075	-	(264,927)	7,513,148
Total Nondepreciable/Amortizable	33,844,178	-	(264,927)	33,579,251
Depreciable/Amortizable Capital Assets:				
Subscription Right of Use Assets	-	915,860	-	915,860
Buildings and Improvements	39,613,623	313,377	(24,225)	39,902,775
Equipment & Vehicle	12,555,617	592,001	(195,324)	12,952,294
Infrastructure	108,726,852	7,958,361	(385,255)	116,299,958
Total Depreciable/Amortizable	160,896,092	9,779,599	(604,804)	170,070,887
Less Accumulated Depreciation/Amortization for:				
Subscription Right of Use Assets	-	202,422	-	202,422
Buildings and Improvements	10,131,701	924,468	-	11,056,169
Equipment & Vehicle	10,044,744	596,816	(151,960)	10,489,600
Infrastructure	46,793,259	2,428,915	-	49,222,174
Total Accumulated Depreciation/Amortization	66,969,704	4,152,621	(151,960)	70,970,365
Net Depreciable/Amortizable Capital Assets	93,926,388	5,626,978	(452,844)	99,100,522
Capital Assets, Net	\$ 127,770,566	\$ 5,626,978	\$ (717,771)	\$ 132,679,773

Depreciation/amortization 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/ Amortization Expense
General Government	\$ 473,698
Public Safety	498,187
Parks & Public Works	2,704,539
Community Development	76,379
Library	398,642
Sanitation	1,176
Total Governmental Activities	<u>\$ 4,152,621</u>

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

	Balance at June 30, 2022	Adjustments and Additions	Retirements	Balance at June 30, 2023
Depreciable/Amortizable Capital Assets:				
Buildings and Improvements	\$ 4,067,708	\$ -	\$ -	\$ 4,067,708
Less Accumulated Depreciation/Amortization for:				
Buildings and Improvements	2,847,392	101,693	-	2,949,085
Net Depreciable/Amortizable Capital Assets	1,220,316	(101,693)	-	1,118,623
Capital Assets, Net	\$ 1,220,316	\$ (101,693)	\$ -	\$ 1,118,623

NOTE 7 - LONG-TERM OBLIGATIONS

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

The following summarizes the changes in long-term debt in the Town during the fiscal year ended June 30, 2023:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Additions/ Adjustments	Deletions	Ending Balance
Direct Borrowings:							
PG& Loan	0%	2031	\$ 1,560,336	\$ 1,352,291	\$ -	\$ 156,034	\$ 1,196,257
Due Within One Year							156,034
Due in More Than One Year							<u>\$ 1,040,223</u>

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

For the Year Ending June 30,	Principal	Interest	Total
2024	\$ 156,034	\$ -	\$ 156,034
2025	156,034	-	156,034
2026	156,034	-	156,034
2027	156,034	-	156,034
2028	156,034	-	156,034
2029-2033	416,087	-	416,087
Total Debt Service	<u>\$ 1,196,257</u>	<u>\$ -</u>	<u>\$ 1,196,257</u>

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The following summarizes the changes in long-term debt in the Successor Agency trust fund during the fiscal year ended June 30, 2023:

Long-Term Debt	Interest Rate	Maturity Date	Original Issue	Beginning Balance	Deletions	Ending Balance
2002 COP	2.5-5%	2031	\$ 10,725,000	\$ 5,280,000	\$ 420,000	\$ 4,860,000
2010 COP	2.5-4.25%	2028	15,675,000	7,505,000	935,000	6,570,000
Subtotal COP's			26,400,000	12,785,000	1,355,000	11,430,000
Premiums			753,095	301,235	37,655	263,580
Total Long-Term Debt			<u>\$ 27,153,095</u>	<u>\$ 13,086,235</u>	<u>\$ 1,392,655</u>	<u>\$ 11,693,580</u>
Due Within One Year						1,415,000
Due in More Than One Year						<u>\$ 10,278,580</u>

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

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

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

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

For the Year Ending June 30,	Principal	Interest	Total
2024	\$ 1,415,000	\$ 479,550	\$ 1,894,550
2025	1,485,000	417,300	1,902,300
2026	1,550,000	351,850	1,901,850
2027	1,625,000	283,375	1,908,375
2028	1,705,000	210,819	1,915,819
2029-2033	3,650,000	275,656	3,925,656
Total Debt Service	<u>\$ 11,430,000</u>	<u>\$ 2,018,550</u>	<u>\$ 13,448,550</u>

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The Successor Agency must maintain a required amount of cash and investments with the trustee under the terms of the COPs issues. These funds are pledged as reserves to be used if the Successor Agency fails to meet its obligations under the COPs issue and totaled \$2,023,185 as of June 30, 2023. The California Government Code requires these funds to be invested in accordance with Town ordinance, bond indentures or State statutes. All these funds have been invested as permitted under the Code.

NOTE 8 - SUBSCRIPTION-BASED INFORMATION TECHNOLOGY AGREEMENTS

The following summarizes the terms of the Town's subscription-based information technology agreements as of June 30, 2023:

Terms	Accela	Microsoft
Start	7/1/2021	7/1/2022
End	6/30/2026	7/1/2025
Annual Rate	4.66%	4.92%
Prepayments	\$ 227,179	\$ -
Implementation Cost	\$ 35,000	\$ -
Principal Paid	\$ -	\$ 58,747
Interest Paid	\$ 15,957	\$ 13,264
Lease Amortization	\$ 149,337	\$ 53,085

The following summarizes the Town's subscription right of use assets as of June 30, 2023:

Subscription Right of Use Assets	Accela	Microsoft	Total
Beginning	\$ -	\$ -	\$ -
Additions	597,350	318,510	915,860
Deletions	-	-	-
Ending	597,350	318,510	915,860
Accumulated Amortization	(149,337)	(53,085)	(202,422)
Subscription ROA, Net	\$ 448,013	\$ 265,425	\$ 713,438

The following summarizes the Town's subscription liabilities as of June 30, 2023:

Subscription Liabilities	Accela	Microsoft	Total
Beginning	\$ -	\$ -	\$ -
Additions	335,172	318,509	653,681
Deletions	-	(58,747)	(58,747)
Ending	335,172	259,762	594,934
Due Within One Year	102,174	46,980	149,154
Due in More Than One Year	\$ 232,998	\$ 212,782	\$ 445,780

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NOTE 9 - 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, 2023.

NOTE 10 - 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. As of June 30, 2023, fund balances were classified as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Nonspendable				
Loans Receivable	\$ 159,000	\$ -	\$ -	\$ 159,000
Leases	-	146,167	(90,190)	55,977
Total Nonspendable	<u>159,000</u>	<u>146,167</u>	<u>(90,190)</u>	<u>214,977</u>
Restricted:				
Library	555,253	86,459	(111,538)	530,174
Capital projects	8,357,393	1,971,621	(2,000,442)	8,328,572
Land held for resale	-	344,338	-	344,338
Repairs and maintenance	174,239	41,219	(38,492)	176,966
Pensions	690,000	711,618	(1,455)	1,400,163
VTA	296,598	596,607	(398,379)	494,826
Total Restricted	<u>10,073,483</u>	<u>3,751,862</u>	<u>(2,550,306)</u>	<u>11,275,039</u>
Committed:				
Budget stabilization and catastrophes	5,991,566	138,208	-	6,129,774
Catastrophic	5,991,566	138,209	-	6,129,775
Pension/OPEB Reserve	300,000	-	-	300,000
Measure G 2018 District Sales Tax - Residual	-	590,581	-	590,581
Measure G 2018 District Sales Tax - Capital	-	1,769,057	-	1,769,057
Special revenue funds	637,711	382,382	(198,893)	821,200
Total Committed	<u>12,920,843</u>	<u>3,018,437</u>	<u>(198,893)</u>	<u>15,740,387</u>
Assigned:				
Open Space	562,000	-	-	562,000
Parking	100,000	-	-	100,000
Sustainability	140,553	-	-	140,553
Capital/Special projects	24,713,386	14,231,906	(9,707,263)	29,238,029
Carryover encumbrances	33,145	4,553	-	37,698
Comcast PEG	50,000	-	-	50,000
ERAF Risk	-	2,298,692	(1,609,084)	689,608
Economic recovery	-	1,556,614	-	1,556,614
Compensated Absences	1,519,147	61,476	-	1,580,623
Measure G 2018 District Sales Tax - Residual	590,581	-	(590,581)	-
Total Assigned	<u>27,708,812</u>	<u>18,153,241</u>	<u>(11,906,928)</u>	<u>33,955,125</u>
Total Fund Balance - Gov't Funds	<u>\$ 50,862,138</u>	<u>\$ 25,069,707</u>	<u>\$ (14,746,317)</u>	<u>\$ 61,185,528</u>

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Nonspendable

Loans receivable nonspendable fund balance reflects long-term loans that are offset by unearned and deferred amounts.

Leases nonspendable fund balance reflects leases receivable that are offset by unearned and deferred amounts.

Restricted

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

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

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

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

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

Committed

Budget Stabilization and Catastrophic fund balance has been committed per Town Council resolution. The Town Council has established by resolution the budget stabilization arrangement and the catastrophe arrangement. The total balances in these arrangements are to be maintained at 25% of annual General Fund ongoing, operating expenditures, excluding one-time expenditures, divided equally between both arrangements. When either arrangement is used, Town Council will develop a 1 to 5-year reserve replenishment plan to meet the minimum threshold of 25% of General Fund ongoing, operating expenditures, excluding onetime expenditures.

The arrangements can be used when:

- Unforeseen emergencies, such as a disaster or catastrophic event occur.
- Significant decrease in property or sales tax, or other economically sensitive revenues.
- Loss of businesses considered to be significant sales tax generators.
- Reductions in revenue due to actions by the state /federal government.
- Workflow/technical system improvements to reduce ongoing personnel costs and enhance customer service.
- One-time maintenance of service levels due to significant economic budget constraints
- One-time transitional costs associated with organizational restructuring to secure long-term personnel cost savings.

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Should any of the events listed above occur that require the expenditure of Town resources beyond those provided for in the annual budget, the Town Manager or designee shall have authority to approve catastrophic or budget stabilization arrangement appropriations. The Town Manager or designee shall then present to the Town Council a budget amendment confirming the nature of the event and authorizing the appropriation of reserve funds.

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

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

Assigned

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

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

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

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 are unspent commitments carried through to future periods.

Comcast PEG assigned fund balance will be used to fund capital improvements linked to the televising of Council and Planning Commission meetings.

Education Realignment Augmentation Fund (ERAF) assigned fund balance has been established to set-aside thirty percent of the anticipated ERAF proceeds from FY 2022/23 until a lawsuit between the State and the School Districts concludes.

Economic Recovery assigned fund balance has been established, after utilizing ARPA replacement revenues, to account for General Fund revenues set-aside for essential government services, economic recovery and business support, enhanced senior services, capital program augmentations, and other one-time uses.

Compensated Absences assigned fund balance will be used for vacation and sick-pay benefits owed to employees as of June 30, 2023 that were not an obligation of the General Fund because of their long-term nature.

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

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NOTE 11 - EMPLOYEES' RETIREMENT PLAN

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

	Defined Benefit Plans		Total
	Misc	Safety	
Deferred outflows of resources	\$ 10,459,160	\$ 14,761,072	\$ 25,220,232
Deferred inflows of resources	\$ 160,064	\$ 2,966,647	\$ 3,126,711
Net pension liabilities	\$ 28,131,979	\$ 31,734,686	\$ 59,866,665
Pension expense (credit)	\$ 4,239,084	\$ 1,630,960	\$ 5,870,044

Plan Descriptions

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

Benefits Provided

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

The Plans' provisions and benefits in effect at June 30, 2023, are summarized as follows:

	Miscellaneous			Safety (Police)	
	Tier 1	Tier 2	PEPRA	Tier 1	PEPRA
Benefit formula	2.5% @ 55	2% @ 60	2% @ 62	3.0% @ 50	2.7% @ 57
Benefit vesting schedule	5 Years	5 Years	5 Years	5 Years	5 Years
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life	Monthly for Life
Retirement age	55	60	62	50	57
Monthly benefits as a					
% of eligible compensation	2.0% to 2.5%	1% to 2.5%	1.5% to 2.5%	3.00%	2-2.70%
Required employee contribution rates	8.00%	7% to 8%	7.25%	9.000%	13.75%
Required employer contribution rates	10.20%	10.20%	14.43%	25.64%	13.66%
Required payment of unfunded liability	\$2,515,583	\$2,515,583	\$2,515,583	\$2,317,133	\$19,258

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Employees Covered

At June 30, 2023, the following employees were covered by the benefit terms for the Plans:

	Miscellaneous	Safety
Active	119	37
Transferred	101	13
Separated	91	3
Retired	255	88
Total	566	141

Contributions

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

For the year ended June 30, 2023, pension ~~expense contributions~~ for each Plan was as follows:

	Miscellaneous	Safety
Contributions - employer	\$ 3,687,213	\$ 3,409,275

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

As of June 30, 2023, the Town reported net pension liabilities for each plan as follows:

	Proportionate Share of Net Pension Liability/(Asset)
Miscellaneous	\$ 28,131,979
Safety	31,734,686
Total	\$ 59,866,665

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

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determined. The Town's proportionate share of the net pension liability for the Safety Plan as of June 30, 2022 and 2023 was as follows:

	Safety
Proportion - June 30, 2022	0.47764%
Proportion - June 30, 2023	0.46183%
Change - Increase/(Decrease)	-0.01581%

For the year ended June 30, 2023, the Town recognized a pension expense of \$5,870,044.

The following is a summary of the changes in the total pension liability, fiduciary net position and net pension liability of the Town's Miscellaneous Plan as of June 30, 2023:

	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Beginning Balance	\$ 116,901,393	\$ 106,177,804	\$ 10,723,589
Service Costs	2,264,169	-	2,264,169
Interest on Total Pension Liability	8,142,881	-	8,142,881
Changes of Assumptions	3,399,004	-	3,399,004
Difference Between Actual and Expected Experience	(108,166)	-	(108,166)
Employer Contributions	-	3,472,727	(3,472,727)
Employee Contributions	-	871,063	(871,063)
Net Investment Income	-	(7,988,150)	7,988,150
Employee Contribution Refunds and Benefit Payments	(6,623,114)	(6,623,114)	-
Administrative Expenses	-	(66,142)	66,142
Net Changes	7,074,774	(10,333,616)	17,408,390
Ending Balance	\$ 123,976,167	\$ 95,844,188	\$ 28,131,979

At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Miscellaneous		Safety	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions	\$ 1,982,752	\$ -	\$ 3,199,817	\$ -
Differences between Expected and Actual Experience	-	160,064	1,313,383	344,614
Differences between Projected and Actual Investment Earnings	4,789,195	-	5,011,351	-
Differences between Employer's Contributions and Proportionate Share of Contributions	-	-	-	2,622,034
Change in Employer's Proportion	-	-	1,827,246	-
Pension Contributions Made Subsequent to Measurement Date	3,687,213	-	3,409,275	-
Total	\$ 10,459,160	\$ 160,064	\$ 14,761,072	\$ 2,966,647

The Town reported \$7,096,488 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2024.

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

Fiscal Year Ending June 30:	Deferred Outflows/(Inflows) of Resources		Total
	Miscellaneous	Safety	
2024	\$ 2,018,125	\$ 2,351,878	\$ 4,370,003
2025	1,211,056	1,908,394	3,119,450
2026	336,478	1,067,890	1,404,368
2027	3,046,224	3,056,988	6,103,212
2028	-	-	-
Thereafter	-	-	-
Total	\$ 6,611,883	\$ 8,385,150	\$ 14,997,033

Actuarial Assumptions

The total pension liabilities in the June 30, 2021 actuarial valuations were determined using the following actuarial assumptions:

	Safety	Miscellaneous
Valuation Date	June 30, 2021	June 30, 2021
Measurement Date	June 30, 2022	June 30, 2022
Actuarial Cost Method	Entry-Age Normal Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:		
Discount Rate	6.90%	6.90%
Inflation	2.50%	2.50%
Payroll Growth	2.75%	2.75%
Projected Salary Increase	(1)	(1)
Investment Rate of Return	6.9% (2)	6.9% (2)
Mortality	(3)	(3)

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

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2021 valuation are based on CalPERS experience studies which can found on the CalPERS website.

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Discount Rate

The discount rate used to measure the total pension liability was 6.9 percent for the Plans. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plans, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 6.9 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.9 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

Long-Term Expected Rate of Return

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

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

Asset Class (a)	Assumed Asset Allocation	Long-Term Expected Real Return (1)(2)
Global Equity Cap Weighted	30.00%	4.45%
Global Equity NonCap Weighted	12.00%	3.84%
Private Equity	13.00%	7.28%
Treasury	5.00%	0.27%
Mortgage-backed Securities	5.00%	0.50%
Investment Grade Corporates	10.00%	1.56%
High Yield	5.00%	2.27%
Emerging Market Debt	5.00%	2.48%
Private Debt	5.00%	3.57%
Real Assets	15.00%	3.21%
Leverage	-5.00%	-0.59%
Total	100.00%	

(1) An expected inflation of 2.3% used for this period.

(2) Figures are based on the 2021-22 Asset Liability Study.

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

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

	<u>Miscellaneous</u>	<u>Safety</u>
1% Decrease	5.90%	5.90%
Net Pension Liability	\$ 44,383,072	47,026,609
Current	6.90%	6.90%
Net Pension Liability	\$ 28,131,979	31,734,686
1% Increase	7.90%	7.90%
Net Pension Liability	\$ 14,764,600	19,236,994

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plans

As of June 30, 2023, the Town reported a payable of \$21,030 and \$24,723 for the outstanding amount of contributions to the Miscellaneous Agent Multiple Employer Plan and the Safety Cost Sharing Plan.

IRS Section 115 Trust

During the fiscal year ending June 30, 2020, the Town established an IRS Section 115 Trust with the CalPERS California Employer's Pension Prefunding Trust (CEPPT) program. In fiscal year 2023, the Town reported \$1,400,163 as restricted cash with fiscal agent within the General Fund. Per GASB, amounts placed in trusts for CalPERS plans are treated as side trusts that do not directly reduce the net pension liability.

NOTE 12 - 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 Postemployment Benefits (OPEB). The Town uses CERBT 1 as its investment vehicle and requests disbursements on an as needed basis to reimburse the Town for the cost of retiree health insurance benefits. Benefit provisions and all other requirements are established by state statute and Town ordinance. Copies of 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

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

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

Employees Covered by Benefit Terms

At June 30, 2023 (the measurement date), the benefit terms covered the following employees:

Active employees	148
Inactive employees - receiving benefits	149
Inactive employees - not receiving benefits	43
Total employees	340

Contributions

The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the Town Council. For the fiscal year ended June 30, 2023, the Town contributed \$1,733,337 from the General Fund. During the measurement period ended June 30, 2022, the Town contributed \$1,754,922 to the Plan and benefit payments were \$1,591,150. Plan members receiving benefits contributed did not make any contributions.

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Actuarial Assumptions

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

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2022
Actuarial Cost Method:	Entry-Age Normal
Amortization Period:	16 year fixed period for 2022/23
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.25%
Inflation	2.50%
Salary Increases	2.75%
Investment Rate of Return	6.25%
Healthcare Trend Rate	Non-Medicare - 6.50% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Non-Kaiser) - 5.65% for 2023, decreasing to an ultimate rate of 3.75% in 2076 Medicare (Kaiser) - 4.60% for 2023, decreasing to an ultimate rate of 3.75% in 2076
Mortality	CalPERS 2000-2019 Experience Study Mortality projected fully generational with Scale MP-2021
Retirement	CalPERS 2000-2019 Experience Study Tier 1 Actives in insurance program: 100% Tier 1 Actives in cash allocation program: 80% Tier 2 Actives in insurance program: 60% Tier 2 Actives in cash allocation program: Agency service < 3 months: 60% Agency service >= 3 months: 40% Waived retirees aged <65: 20% Waived retirees aged ≥65: 0%

Assumption Changes:

None

Discount Rate

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

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Net OPEB Liability

The Town's net OPEB liability was measured as of June 30, 2022 (measurement date) and was determined by an actuarial valuation as of June 30, 2021 (valuation date) for the fiscal year ended June 30, 2023 (reporting date).

Changes in the Net OPEB Liability

The following summarizes the changes in the net OPEB liability during the year ended June 30, 2023:

Fiscal Year Ended June 30, 2023 (Measurement Date June 30, 2022)	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at June 30, 2022	\$ 28,720,003	\$ 26,228,423	\$ 2,491,580
Service cost	955,115	-	955,115
Interest in Total OPEB Liability	1,804,972	-	1,804,972
Employer contributions	-	1,754,922	(1,754,922)
Net investment income	-	(3,510,434)	3,510,434
Administrative expenses	-	(21,454)	21,454
Benefit payments	(1,591,150)	(1,591,150)	-
Net changes	1,168,937	(3,368,116)	4,537,053
Balance at June 30, 2023	<u>\$ 29,888,940</u>	<u>\$ 22,860,307</u>	<u>\$ 7,028,633</u>
Covered Employee Payroll	\$ 16,987,042		
Total OPEB Liability as a % of Covered Employee Payroll	175.95%		
Plan Fid. Net Position as a % of Total OPEB Liability	76.48%		
Service Cost as a % of Covered Employee Payroll	5.62%		
Net OPEB Liability as a % of Covered Employee Payroll	41.38%		
Contributions as a % of Cov. Emp. Payroll	10.33%		

Deferred Inflows and Outflows of Resources

At June 30, 2023, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between actual and expected experience	\$ -	\$ 1,729,077
Difference between actual and expected earnings	1,869,601	-
Change in assumptions	703,092	388,845
OPEB contribution subsequent to measurement date	1,733,337	-
Totals	<u>\$ 4,306,030</u>	<u>\$ 2,117,922</u>

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

Item 9.

Of the total amount reported as deferred outflows of resources related to OPEB, \$1,733,337 were the result of Town contributions subsequent to the measurement date and before the end of the fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	
2024	\$ (95,837)
2025	(104,501)
2026	(130,350)
2027	785,459
2028	-
Thereafter	-
Total	<u>\$ 454,771</u>

Rate of Return

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

Asset Class	Percentage of Portfolio	Long-Term Expected Rate of Return
Global Equity	49.00%	4.56%
Fixed Income	23.00%	1.56%
TIPS	5.00%	-0.08%
Commodities	3.00%	1.22%
REITs	20.00%	4.06%
Total	<u>100.00%</u>	

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 9.

OPEB Expense

The following summarizes the OPEB expense by source during the year ended June 30, 2023:

Service cost	\$ 955,115
Interest in TOL	1,804,972
Expected investment income	(1,639,254)
Difference between actual and expected experience	(445,555)
Difference between actual and expected earnings	297,921
Change in assumptions	18,738
Administrative expenses	21,454
OPEB Expense	<u>\$ 1,013,391</u>

The following summarizes changes in the net OPEB liability as reconciled to OPEB expense during the year ended June 30, 2023:

Net OPEB liability ending	\$ 7,028,633
Net OPEB liability beginning	(2,491,580)
Change in net OPEB liability	4,537,053
Changes in deferred outflows	(1,693,828)
Changes in deferred inflows	(3,584,756)
Employer contributions and implicit subsidy	1,754,922
OPEB Expense	<u>\$ 1,013,391</u>

Sensitivity to Changes in the Discount Rate

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

	Discount Rate		
	(1% Decrease)	6.25%	(1% Increase)
Net OPEB Liability (Asset)	\$ 10,608,076	\$ 7,028,633	\$ 4,038,280

Sensitivity to Changes in the Healthcare Cost Trend Rates

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

	Trend Rate		
	(1% Decrease)	Current	(1% Increase)
Net OPEB Liability (Asset)	\$ 4,445,533	\$ 7,028,633	\$ 9,938,167

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 9.

NOTE 13 - RISK MANAGEMENT

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

Pooled Liability Assurance Network Joint Powers Authority (PLAN JPA)

The Town participates in PLAN, which covers general liability claims in the amount up to \$5,000,000 plus \$25,000,000 in excess liability for total coverage of \$30,000,000 per occurrence. The Town has a deductible or uninsured liability of up to \$50,000 per claim. PLAN also provides all risk property coverage of \$1,000,000,000, excluding flood and earthquake coverage. The Town has a \$5,000 deductible for property and vehicle damage. Once the Town's deductible is met, PLAN becomes responsible for payment of all claims up to the limit. Financial statements may be obtained from PLAN at 1750 Creekside Drive, Suite 200, Sacramento, CA, 95833.

Local Agency Workers' Compensation Joint Powers Authority (LAWCX)

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

Liability for Uninsured Claims

The Town is required to record its liability for uninsured claims and to reflect the current portion of this liability as an expenditure in its financial statements. As discussed above, the Town has coverage for such claims, but it has retained the risk for the deductibles, or uninsured portion of these claims. The change in Workers' Compensation and Self-Insurance Service Funds' claims liabilities, is based on historical trend information provided by its third party administrator and was computed as follows as of June 30, 2023:

	Workers' Compensation Internal Service Fund	Self- Insurance Internal Service Fund	Total
Claims payable balance - June 30, 2021	\$ 1,495,482	\$ 200,590	\$ 1,696,072
Claims incurred	-	(119,883)	(119,883)
Claims paid	(130,924)	(61,150)	(192,074)
Claims payable balance - June 30, 2022	1,364,558	19,557	1,384,115
Claims incurred/adjustments	1,731,577	224,382	1,955,959
Claims paid	(1,127,156)	(86,210)	(1,213,366)
Claims payable balance - June 30, 2023	\$ 1,968,979	\$ 157,729	\$ 2,126,708

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 9.

NOTE 14 - 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, 2023, the Successor Agency trust fund reported a net deficit of \$6,187,788.

Encumbrances - As of June 30, 2023, the town had the following encumbered balances that were carried into the next fiscal year:

General Fund	\$ 797,302
Appropriated Reserves Fund	5,526,443
Nonmajor Governmental Funds	1,476,257
Internal Service Funds	125,253
Total Encumbrances	<u>\$ 7,925,255</u>

NOTE 15 - TOWN/SUCCESSOR AGENCY GRANTS, COOPERATIVE AGREEMENTS

Public Improvement Grants and Cooperative Agreements

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

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

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

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

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
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Item 9.

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 16 - COVID19 PANDEMIC PROGRAMS

On March 11, 2021, the American Rescue Plan Act (ARPA) was signed into law by President Biden. The \$1.9 trillion package (the Act) provided financial aid to families, governments, businesses, schools, nonprofits and others impacted by the COVID19 public health crisis. Of the \$1.9 trillion, \$350 billion was directed toward state and local governments. All 19,000 municipal governments are entitled to a direct, noncompetitive federal formula grant from the U.S. Treasury Department. The portion allocated to cities, towns, and villages totals \$65.1 billion of which \$19.5 billion is obligated toward cities with less than 50,000 residents. The Act has allocated \$7,229,744 to the Town over a two-year period. The first tranche payment of \$3,614,862 was received on July 13, 2021, and the second payment was received on July 21, 2022. Section 603. Coronavirus Local Fiscal Recovery Fund of the Act identified four eligible uses for funding, as follows:

- A. to respond to the public health emergency with respect to the Coronavirus Disease 2019 (COVID19) or its negative economic impacts, including assistance to households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- B. to respond to workers performing essential work during the COVID19 public health emergency by providing premium pay to eligible workers of the metropolitan city, nonentitlement unit of local government, or county that are performing such essential work, or by providing grants to eligible employers that have eligible workers who perform essential work;
- C. for the provision of government services to the extent of the reduction in revenue of such metropolitan city, nonentitlement unit of local government, or county due to the COVID19 public health emergency relative to revenues collected in the most recent full fiscal year of the metropolitan city, nonentitlement unit of local government, or county prior to the emergency; or
- D. to make necessary investments in water, sewer, or broadband infrastructure.

TOWN OF LOS GATOS, CALIFORNIA
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During the fiscal year ended June 30, 2023, the Town recognized \$3,614,872 as operating grant revenue in the ARPA special revenue fund and transferred \$3,614,872 to other funds, reimbursing the Town for qualifying **public safety** expenditures under the provisions of the Act.

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Required Supplementary Information

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ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

BENEFIT PLAN SCHEDULES

Schedule of Pension Plan Contributions

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

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

Schedule of OPEB Contribution

Schedule of Changes in Net OPEB Liability

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ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SCHEDULE OF PENSION PLAN CONTRIBUTIONS

Miscellaneous Agent Multiple-Employer Plan

Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually Required Contributions	\$ 1,941,765	\$ 2,223,782	\$ 2,407,496	\$ 2,669,133	\$ 3,049,748	\$ 3,366,304	\$ 3,529,373	\$ 3,472,727	\$ 3,687,213
Contributions in Relation to Contractually Required Contributions	1,941,765	2,223,782	2,407,496	2,669,133	3,049,748	8,146,791	9,160,680	3,472,727	3,687,213
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (4,780,487)	\$ (5,631,307)	\$ -	\$ -
Covered Payroll	\$ 8,487,940	\$ 9,198,318	\$ 9,024,370	\$ 9,576,157	\$ 10,211,967	\$ 11,188,927	\$ 12,082,520	\$ 12,305,265	\$ 11,094,190
Contributions as a % of Covered Payroll	22.88%	24.18%	26.68%	27.87%	29.86%	72.81%	75.82%	28.22%	33.24%

Safety Cost Sharing Plan

Plan Measurement Date	2014	2015	2016	2017	2018	2019	2020	2021	2022
Fiscal Year Ended	2015	2016	2017	2018	2019	2020	2021	2022	2023
Contractually Required Contributions	\$ 1,999,757	\$ 1,586,129	\$ 1,738,150	\$ 1,951,711	\$ 2,325,357	\$ 2,565,205	\$ 2,853,764	\$ 3,072,032	\$ 3,409,275
Contributions in Relation to Contractually Required Contributions	1,999,757	1,586,129	1,738,150	1,951,711	2,325,357	2,565,205	2,853,764	3,072,032	3,409,275
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 4,897,104	\$ 5,022,498	\$ 4,941,138	\$ 5,079,440	\$ 4,445,061	\$ 4,928,821	\$ 5,178,418	\$ 5,603,211	\$ 5,863,101
Contributions as a % of Covered Payroll	40.84%	31.58%	35.18%	38.42%	52.31%	52.05%	55.11%	54.83%	58.15%

Notes to Schedule:

Valuation Date: June 30, 2021

Assumptions Used: Entry Age Method used for Actuarial Cost Method
 Level Percentage of Payroll and Direct Rate Smoothing
 Remaining Amortization Period no more than 29 years
 Inflation Assumed at 2.30%
 Investment Rate of Returns set at 6.9%
 The mortality table was developed based on CalPERS-specific data. The rates incorporate Generational Mortality to capture ongoing mortality improvement using 80% of Scale MP 2020 published by the Society of Actuaries. For more

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

The CalPERS discount rate was increased from 7.50% to 7.65% in FY2016, to 7.15% in FY2018 and then decreased to 6.9% in FY2023.

The CalPERS mortality assumptions were adjusted in fiscal year 2023.

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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

Safety Cost Sharing Plan	2014	2015	2016	2017	2018	2019	2020	2021	2022
Plan Measurement Date	2015	2016	2017	2018	2019	2020	2021	2022	2023
Fiscal Year Ended									
Proportion of Net Pension Liability	0.28588%	0.14860%	0.22394%	0.22603%	0.23583%	0.24100%	0.24953%	0.30994%	0.27474%
Proportionate Share of Net Pension Liability	\$ 17,788,690	\$ 10,199,904	\$ 19,377,843	\$ 22,415,954	\$ 22,725,267	\$ 24,695,687	\$ 27,149,916	\$ 16,762,598	\$ 31,734,686
Covered Payroll	\$ 4,916,535	\$ 4,897,104	\$ 5,022,498	\$ 4,941,138	\$ 5,079,440	\$ 4,445,061	\$ 4,928,821	\$ 5,178,418	\$ 5,603,211
Proportionate Share of NPL as a % of Covered Payroll	361.81%	208.28%	385.82%	453.66%	447.40%	555.58%	550.84%	323.70%	566.37%
Plan's Fiduciary Net Position as a % of the TPL	78.83%	74.89%	74.89%	73.87%	74.52%	73.61%	72.46%	83.55%	71.34%

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

The CalPERS discount rate was increased from 7.50% to 7.65% in FY2016, to 7.15% in FY2018 and then decreased to 6.9% in FY2023.

The CalPERS mortality assumptions were adjusted in fiscal year 2023.

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ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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

Measurement Date	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Pension liability									
Service cost	\$ 1,579,547	\$ 1,491,925	\$ 1,560,679	\$ 1,651,550	\$ 1,700,438	\$ 1,771,368	\$ 1,930,090	\$ 2,062,486	\$ 2,264,169
Interest	6,268,015	6,483,032	6,697,247	6,820,536	7,073,843	7,381,846	7,729,269	7,943,404	8,142,881
Diff. between expected and actual exp.	-	(623,495)	(357,870)	(892,479)	994,994	1,082,289	1,465,653	(581,801)	(108,166)
Changes of assumptions	-	(1,513,132)	-	5,481,432	(655,541)	-	-	-	3,399,004
Benefit payments (including refunds)	(4,241,487)	(4,748,786)	(4,953,756)	(5,138,083)	(5,448,374)	(5,720,232)	(5,958,101)	(6,339,615)	(6,623,114)
Net change in Total Pension Liability	3,606,075	1,089,544	2,946,300	7,922,956	3,665,360	4,515,271	5,166,911	3,084,474	7,074,774
Total Pension Liability - beginning	84,904,502	88,510,577	89,600,121	92,546,421	100,469,377	104,134,737	108,650,008	113,816,919	116,901,393
Total Pension Liability - ending	\$ 88,510,577	\$ 89,600,121	\$ 92,546,421	\$ 100,469,377	\$ 104,134,737	\$ 108,650,008	\$ 113,816,919	\$ 116,901,393	\$ 123,976,167
Plan fiduciary net position									
Employer contributions	\$ 1,796,079	\$ 1,941,765	\$ 2,223,782	\$ 2,407,496	\$ 2,669,104	\$ 3,049,748	\$ 8,146,791	\$ 9,160,680	\$ 3,472,727
Employee contributions	668,167	679,796	691,770	682,891	761,705	846,125	834,145	889,649	871,063
Plan to plan resource movement	-	22,561	(28,866)	-	(170)	-	-	-	-
Projected investment earnings	4,328,173	-	-	-	-	-	-	-	-
Diff. between est. and actual earnings	5,831,718	-	-	-	-	-	-	-	-
Net investment income	-	1,470,873	369,185	7,171,443	5,883,868	4,759,034	3,913,294	19,606,360	(7,988,150)
Benefit payments (including refunds)	(4,241,487)	(4,748,786)	(4,953,756)	(5,138,083)	(5,448,374)	(5,720,232)	(5,958,101)	(6,339,615)	(6,623,114)
Administrative expense	-	(74,706)	(40,462)	(95,455)	(108,582)	(52,260)	(107,303)	(82,856)	(66,142)
Adjustments	-	-	-	-	(206,199)	170	-	-	-
Net change in plan fiduciary net position	8,382,650	(708,497)	(1,738,347)	5,028,292	3,551,352	2,882,585	6,828,826	23,234,218	(10,333,616)
Plan fiduciary net position - beginning	58,716,725	67,099,375	66,390,878	64,652,531	69,680,823	73,232,175	76,114,760	82,943,586	106,177,804
Plan fiduciary net position - ending	\$ 67,099,375	\$ 66,390,878	\$ 64,652,531	\$ 69,680,823	\$ 73,232,175	\$ 76,114,760	\$ 82,943,586	\$ 106,177,804	\$ 95,844,188
Net Pension liability (asset)	\$ 21,411,202	23,209,243	27,893,890	30,788,554	30,902,562	32,535,248	30,873,333	10,723,589	28,131,979
Plan fiduciary net position as a percentage of the total Pension liability	75.81%	74.10%	69.86%	69.36%	70.32%	70.05%	72.87%	90.83%	77.31%
Covered Payroll	\$ 8,406,315	\$ 8,487,940	\$ 9,198,318	\$ 9,024,370	\$ 9,576,157	\$ 10,211,967	\$ 11,188,927	\$ 12,082,520	\$ 12,305,265
Net Pension liability % of covered payroll	254.70%	273.44%	303.25%	341.17%	322.70%	318.60%	275.93%	88.75%	228.62% ¹

Other Notes

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

ANNUAL COMPREHENSIVE FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2023

SCHEDULE OF OPEB CONTRIBUTIONS

Fiscal Year Ended	2018	2019	2020	2021	2022	2023
Actuarially determined contribution (ADC)	\$ 2,129,000	\$ 2,108,000	\$ 2,172,000	\$ 1,859,000	\$ 1,860,000	\$ 1,372,000
Less: actual contribution in relation to ADC	(2,935,000)	(2,406,636)	(2,508,306)	(2,096,847)	(1,754,922)	(1,733,337)
Contribution deficiency (excess)	\$ (806,000)	\$ (298,636)	\$ (336,306)	\$ (237,847)	\$ 105,078	\$ (361,337)
Covered employee payroll	\$ 16,192,060	\$ 17,338,201	\$ 17,406,541	\$ 17,982,237	\$ 16,987,042	\$ 17,809,965
Contrib. as a % of covered employee payroll	18.13%	13.88%	14.41%	11.66%	10.33%	9.73%

Notes to Schedule:

Assumptions and Methods

Valuation Date:	June 30, 2021
Measurement Date:	June 30, 2022
Actuarial Cost Method:	Entry-Age Normal Cost
Amortization Period:	16 year fixed period for 2022/23
Asset Valuation Method:	Level percentage of payroll, closed
Actuarial Assumptions:	
Discount Rate	6.25%
Inflation	2.50%
Salary Increases	2.75%
Investment Rate of Return	6.25%
Healthcare Trend Rate	Non-Medicare - 6.50% for 2023, decreasing to an ultimate rate of 3.75% in
Mortality	CalPERS 2000-2019 Experience Study
Retirement	CalPERS 2000-2019 Experience Study

Other Notes

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

In FY 2022, the discount rate was updated based on newer capital market assumptions

In FY 2022, decreased medical trend rate for Kaiser Senior Advantage

In FY 2022, demographic assumptions were updated to CalPERS 2000-2019 Experience Study

In FY 2022, the inflation rate decreased 25 basis points, decreasing discount rate, medical trend, and salary increases

In FY 2022, retiree and family participation rates at retirement updated

In FY 2022, the Implicit subsidy was added for Tier 1 Medicare eligible

In FY 2022, the mortality improvement scale was updated to Scale MP-2021

No changes in FY 2023

**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY

Measurement Date	2017	2018	2019	2020	2021	2022
Total OPEB liability						
Service cost	\$ 1,134,000	\$ 1,168,227	\$ 1,203,274	\$ 1,159,152	\$ 1,115,309	\$ 955,115
Interest	1,607,000	1,706,270	1,814,072	1,887,105	1,956,034	1,804,972
Differences between expected & actual exp.	-	-	(149,297)	-	(2,521,500)	-
Changes of assumptions	-	-	(392,681)	(533,825)	1,054,638	-
Benefit payments	(1,269,000)	(1,326,313)	(1,298,623)	(1,399,933)	(1,494,906)	(1,591,150)
Net change in Total OPEB Liability	1,472,000	1,548,184	1,176,745	1,112,499	109,575	1,168,937
Total OPEB Liability - beginning	23,301,000	24,773,000	26,321,184	27,497,929	28,610,428	28,720,003
Total OPEB Liability - ending	\$ 24,773,000	\$ 26,321,184	\$ 27,497,929	\$ 28,610,428	\$ 28,720,003	\$ 29,888,940
Plan fiduciary net position						
Employer contributions	\$ 3,878,000	\$ 2,935,313	\$ 2,406,636	\$ 2,508,306	\$ 2,096,847	\$ 1,754,922
Net investment income	1,049,000	1,082,977	1,009,315	652,656	5,529,824	(3,510,434)
Benefit payments	(1,269,000)	(1,326,313)	(1,298,623)	(1,399,933)	(1,494,906)	(1,591,150)
Administrative expense	(14,000)	(34,261)	(11,502)	(17,357)	(18,556)	(21,454)
Net change in plan fiduciary net position	3,644,000	2,657,716	2,105,826	1,743,672	6,113,209	(3,368,116)
Plan fiduciary net position - beginning	9,964,000	13,608,000	16,265,716	18,371,542	20,115,214	26,228,423
Plan fiduciary net position - ending	\$ 13,608,000	\$ 16,265,716	\$ 18,371,542	\$ 20,115,214	\$ 26,228,423	\$ 22,860,307
Net OPEB liability (asset)	\$ 11,165,000	10,055,468	9,126,387	8,495,214	2,491,580	7,028,633
Plan fiduciary net position as a percentage of the total OPEB liability	54.93%	61.80%	66.81%	70.31%	91.32%	76.48%
Covered Employee Payroll	\$ 14,985,716	\$ 16,192,060	\$ 17,338,201	\$ 17,406,541	\$ 17,982,237	\$ 16,987,042
NOL as a % of cov. emp. payroll	74.50%	62.10%	52.64%	48.80%	13.86%	41.38%

Other Notes

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

Supplementary Information

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**ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

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

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

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

Capital Projects Funds:

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

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

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

Special Revenue Funds:

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

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

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

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

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

**TOWN OF LOS GATOS
APPROPRIATED RESERVES FUND
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
REVENUES				
Licenses & permits	\$ 110,000	\$ 110,001	\$ 181,533	\$ 71,532
Intergovernmental	6,187,538	3,340,719	3,358,063	17,344
Charges for services	871,800	956,262	1,072,009	115,747
Developer fees	20,000	620,000	614,820	(5,180)
Interest	-	-	44,198	44,198
Use of Property	96,000	96,000	91,284	(4,716)
Other	2,900,000	-	-	-
Total Revenues	10,185,338	5,122,982	5,361,907	238,925
EXPENDITURES				
Capital outlay	13,949,982	6,710,867	6,722,633	(11,766)
Total Expenditures	13,949,982	6,710,867	6,722,633	(11,766)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(3,764,644)	(1,587,885)	(1,360,726)	227,159
OTHER FINANCING SOURCES (USES)				
Settlements	-	1,565,000	1,565,000	-
Transfers in	3,706,978	7,103,550	7,732,614	629,064
Transfers (out)	(427,616)	(427,616)	(427,616)	-
Total Other Financing Sources (Uses)	3,279,362	8,240,934	8,869,998	629,064
CHANGE IN FUND BALANCE	\$ (485,282)	\$ 6,653,049	7,509,272	\$ 856,223
BEGINNING FUND BALANCE			14,240,753	
ENDING FUND BALANCE			\$ 21,750,025	

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2023

Item 9.

	CAPITAL PROJECTS FUNDS			
	Storm Drains	Construction Tax	Gas Tax	Total Capital Projects Funds
ASSETS				
Cash & investments	\$ 3,218,331	\$ 3,438,996	\$ 1,465,877	\$ 8,123,204
Restricted cash & investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Intergovernmental receivable	-	-	205,368	205,368
Leases receivable	-	-	-	-
Long term notes receivable	-	-	-	-
Total Assets	<u>\$ 3,218,331</u>	<u>\$ 3,438,996</u>	<u>\$ 1,671,245</u>	<u>\$ 8,328,572</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	-	-
Due to other funds	-	-	-	-
Unearned revenue	-	-	-	-
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
Leases	-	-	-	-
FUND BALANCE				
Nonspendable - leases	-	-	-	-
Restricted for:				
Library	-	-	-	-
Repairs and maintenance	-	-	-	-
Capital projects	3,218,331	3,438,996	1,671,245	8,328,572
Committed to:				
Special revenue funds	-	-	-	-
Total Fund Balances	<u>3,218,331</u>	<u>3,438,996</u>	<u>1,671,245</u>	<u>8,328,572</u>
Total Liabilities and Fund Balances	<u>\$ 3,218,331</u>	<u>\$ 3,438,996</u>	<u>\$ 1,671,245</u>	<u>\$ 8,328,572</u>

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2023

Item 9.

SPECIAL REVENUE FUNDS

	Community Development	Non-Point Source Maintenance	Lighting and Landscaping
ASSETS			
Cash & investments	\$ 94,412	\$ 580,929	\$ 183,129
Restricted cash & investments	58,344	-	-
Receivables:			
Accounts	-	52,426	-
Intergovernmental receivable	-	-	171
Leases receivable	-	-	-
Long term notes receivable	78,752	-	-
Total Assets	<u>\$ 231,508</u>	<u>\$ 633,355</u>	<u>\$ 183,300</u>
LIABILITIES			
Accounts payable	\$ 60	\$ 1,178	\$ 6,334
Accrued payroll and benefits	-	2,334	-
Due to other funds	-	-	-
Unearned revenue	64,795	-	-
Total Liabilities	<u>64,855</u>	<u>3,512</u>	<u>6,334</u>
DEFERRED INFLOWS OF RESOURCES			
Leases	-	-	-
FUND BALANCE			
Nonspendable - leases	-	-	-
Restricted for:			
Library	-	-	-
Repairs and maintenance	-	-	176,966
Capital projects	-	-	-
Committed to:			
Special revenue funds	166,653	629,843	-
Total Fund Balances	<u>166,653</u>	<u>629,843</u>	<u>176,966</u>
Total Liabilities and Fund Balances	<u>\$ 231,508</u>	<u>\$ 633,355</u>	<u>\$ 183,300</u>

(Continued)

TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEETS
JUNE 30, 2023

Item 9.

	SPECIAL REVENUE FUNDS			Total Nonmajor Governmental Funds
	LG Theatre	Library Trust	Total Special Revenue Funds	
ASSETS				
Cash & investments	\$ -	\$ 533,131	\$ 1,391,601	\$ 9,514,805
Restricted cash & investments	-	-	58,344	58,344
Receivables:				
Accounts	32,725	-	85,151	85,151
Intergovernmental receivable	-	-	171	205,539
Leases receivable	319,957	-	319,957	319,957
Long term notes receivable	-	-	78,752	78,752
Total Assets	\$ 352,682	\$ 533,131	\$ 1,933,976	\$ 10,262,548
LIABILITIES				
Accounts payable	\$ 6,189	\$ 2,957	\$ 16,718	\$ 16,718
Accrued payroll and benefits	-	-	2,334	2,334
Due to other funds	1,832	-	1,832	1,832
Unearned revenue	-	-	64,795	64,795
Total Liabilities	8,021	2,957	85,679	85,679
DEFERRED INFLOWS OF RESOURCES				
Leases	269,670	-	269,670	269,670
FUND BALANCE				
Nonspendable - leases	50,287	-	50,287	50,287
Restricted for:				
Library	-	530,174	530,174	530,174
Repairs and maintenance	-	-	176,966	176,966
Capital projects	-	-	-	8,328,572
Committed to:				
Special revenue funds	24,704	-	821,200	821,200
Total Fund Balances	74,991	530,174	1,578,627	9,907,199
Total Liabilities and Fund Balances	\$ 352,682	\$ 533,131	\$ 1,933,976	\$ 10,262,548

(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, 2023**

	CAPITAL PROJECTS FUNDS			
	Storm Drain	Construction Tax	Gas Tax	Total Capital Projects Funds
REVENUES				
Property Taxes	\$ -	\$ -	\$ -	\$ -
Other Taxes	-	29,042	-	29,042
License and permits	161,830	-	-	161,830
Intergovernmental	-	-	1,597,057	1,597,057
Interest	55,771	58,440	20,481	134,692
Use of property	-	-	-	-
Other	-	49,000	-	49,000
Total Revenues	217,601	136,482	1,617,538	1,971,621
EXPENDITURES				
Current:				
Parks and public works	-	-	-	-
Library services	-	-	-	-
Sanitation and other	-	-	-	-
Capital Outlay	218,081	-	1,676,361	1,894,442
Total Expenditures	218,081	-	1,676,361	1,894,442
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(480)	136,482	(58,823)	77,179
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(106,000)	(106,000)
Total Other Financing Sources (Uses)	-	-	(106,000)	(106,000)
Changes in Fund Balances	(480)	136,482	(164,823)	(28,821)
Fund Balances - Beginning of year	3,218,811	3,302,514	1,836,068	8,357,393
Fund Balances - End of year	\$ 3,218,331	\$ 3,438,996	\$ 1,671,245	\$ 8,328,572

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Item 9.

	SPECIAL REVENUE FUNDS		
	Community Development	Non-Point Source Maintenance	Lighting and Landscaping
REVENUES			
Property Taxes	\$ -	\$ -	\$ 38,161
Other Taxes	-	-	-
License and permits	-	359,950	-
Intergovernmental	-	22,432	-
Interest	-	-	3,058
Use of property	-	-	-
Other	-	-	-
Total Revenues	-	382,382	41,219
EXPENDITURES			
Current:			
Parks and public works	-	-	33,572
Library services	-	-	-
Sanitation and other	-	204,097	-
Capital Outlay	-	-	-
Total Expenditures	-	204,097	33,572
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	-	178,285	7,647
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	-
Transfers (out)	-	-	(4,920)
Total Other Financing Sources (Uses)	-	-	(4,920)
Changes in Fund Balances	-	178,285	2,727
Fund Balances - Beginning of year	166,653	451,558	174,239
Fund Balances - End of year	\$ 166,653	\$ 629,843	\$ 176,966

(Continued)

**TOWN OF LOS GATOS
NONMAJOR GOVERNMENTAL FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	SPECIAL REVENUE FUNDS			
	LG Theatre	Library Trust	Total Special Revenue Funds	Total
REVENUES				
Property Taxes	\$ -	\$ -	\$ 38,161	\$ 38,161
Other Taxes	-	-	-	29,042
License and permits	-	-	359,950	521,780
Intergovernmental	-	-	22,432	1,619,489
Interest	-	9,845	12,903	147,595
Use of property	108,237	-	108,237	108,237
Other	-	76,617	76,617	125,617
Total Revenues	108,237	86,462	618,300	2,589,921
EXPENDITURES				
Current:				
Parks and public works	52,746	-	86,318	86,318
Library services	-	111,541	111,541	111,541
Sanitation and other	-	-	204,097	204,097
Capital Outlay	-	-	-	1,894,442
Total Expenditures	52,746	111,541	401,956	2,296,398
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	55,491	(25,079)	216,344	293,523
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	-
Transfers (out)	-	-	(4,920)	(110,920)
Total Other Financing Sources (Uses)	-	-	(4,920)	(110,920)
Changes in Fund Balances	55,491	(25,079)	211,424	182,603
Fund Balances - Beginning of year	19,500	555,253	1,367,203	9,724,596
Fund Balances - End of year	\$ 74,991	\$ 530,174	\$ 1,578,627	\$ 9,907,199

(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, 2023**

Item 9.

	STORM DRAIN			CONSTRUCTION TAX		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	30,000	29,042	(958)
License and permits	92,500	161,830	69,330	-	-	-
Intergovernmental	-	-	-	-	-	-
Interest	12,580	55,771	43,191	22,490	58,440	35,950
Use of property	-	-	-	-	-	-
Other	-	-	-	-	49,000	49,000
Total Revenues	105,080	217,601	112,521	52,490	136,482	83,992
EXPENDITURES						
Current:						
Parks and public works	-	-	-	-	-	-
Library services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	218,081	218,081	-	-	-	-
Total Expenditures	218,081	218,081	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(113,001)	(480)	112,521	52,490	136,482	83,992
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ (113,001)</u>	<u>(480)</u>	<u>\$ 112,521</u>	<u>\$ 52,490</u>	<u>136,482</u>	<u>\$ 83,992</u>
BEGINNING FUND BALANCE		3,218,811			3,302,514	
ENDING FUND BALANCE		<u>\$ 3,218,331</u>			<u>\$ 3,438,996</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Item 9.

	GAS TAX			COMMUNITY DEVELOPMENT		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	1,535,078	1,597,057	61,979	-	-	-
Interest	1,335	20,481	19,146	-	-	-
Use of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	1,536,413	1,617,538	81,125	-	-	-
EXPENDITURES						
Current:						
Parks and public works	-	-	-	-	-	-
Library services	-	-	-	-	-	-
Sanitation and other	-	-	-	-	-	-
Capital outlay	1,676,361	1,676,361	-	-	-	-
Total Expenditures	1,676,361	1,676,361	-	-	-	-
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(139,948)	(58,823)	81,125	-	-	-
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	(106,000)	(106,000)	-	-	-	-
Total Other Financing Sources (Uses)	(106,000)	(106,000)	-	-	-	-
CHANGE IN FUND BALANCE	<u>\$ (245,948)</u>	<u>(164,823)</u>	<u>\$ 81,125</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
BEGINNING FUND BALANCE		1,836,068			166,653	
ENDING FUND BALANCE		<u>\$ 1,671,245</u>			<u>\$ 166,653</u>	

(Continued)

TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	NON-POINT SOURCE MAINTENANCE			LIGHTING AND LANDSCAPING		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ 38,220	\$ 38,161	\$ (59)
Other taxes	-	-	-	-	-	-
License and permits	359,950	359,950	-	-	-	-
Intergovernmental	-	22,432	22,432	-	-	-
Interest	-	-	-	1,425	3,058	1,633
Use of property	-	-	-	-	-	-
Other	-	-	-	-	-	-
Total Revenues	359,950	382,382	22,432	39,645	41,219	1,574
EXPENDITURES						
Current:						
Parks and public works	-	-	-	42,764	33,572	9,192
Library services	-	-	-	-	-	-
Sanitation and other	198,372	204,097	(5,725)	-	-	-
Capital outlay	-	-	-	62,500	-	62,500
Total Expenditures	198,372	204,097	(5,725)	105,264	33,572	71,692
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	161,578	178,285	16,707	(65,619)	7,647	73,266
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	(4,920)	(4,920)	-
Total Other Financing Sources (Uses)	-	-	-	(4,920)	(4,920)	-
CHANGE IN FUND BALANCE	<u>\$ 161,578</u>	<u>178,285</u>	<u>\$ 16,707</u>	<u>\$ (70,539)</u>	<u>2,727</u>	<u>\$ 73,266</u>
BEGINNING FUND BALANCE		<u>451,558</u>			<u>174,239</u>	
ENDING FUND BALANCE		<u>\$ 629,843</u>			<u>\$ 176,966</u>	

(Continued)

**TOWN OF LOS GATOS
BUDGETED NONMAJOR FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

Item 9.

	LG Theatre			Library Trust		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
REVENUES						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
License and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Interest	-	-	-	6,250	9,845	3,595
Use of property	68,400	108,237	39,837	-	-	-
Other	-	-	-	75,000	76,617	1,617
Total Revenues	68,400	108,237	39,837	81,250	86,462	5,212
EXPENDITURES						
Current:						
Parks and public works	55,814	52,746	3,068	-	-	-
Library services	-	-	-	105,500	111,541	(6,041)
Sanitation and other	-	-	-	-	-	-
Capital outlay	-	-	-	20,755	-	20,755
Total Expenditures	55,814	52,746	3,068	126,255	111,541	14,714
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	12,586	55,491	42,905	(45,005)	(25,079)	19,926
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-	-	-
CHANGE IN FUND BALANCE	\$ 12,586	55,491	\$ 42,905	\$ (45,005)	(25,079)	\$ 19,926
BEGINNING FUND BALANCE		19,500			555,253	
ENDING FUND BALANCE		\$ 74,991			\$ 530,174	

(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, 2023

Item 9.

	TOTALS		
	Budget	Actual	Variance Positive (Negative)
REVENUES			
Property taxes	\$ 38,220	\$ 38,161	\$ (59)
Other taxes	30,000	29,042	(958)
License and permits	452,450	521,780	69,330
Intergovernmental	1,535,078	1,619,489	84,411
Interest	44,080	147,595	103,515
Use of property	68,400	108,237	39,837
Other	75,000	125,617	50,617
Total Revenues	2,243,228	2,589,921	346,693
EXPENDITURES			
Current:			
Parks and public works	98,578	86,318	12,260
Library services	105,500	111,541	-
Sanitation and other	198,372	204,097	(5,725)
Capital outlay	1,977,697	1,894,442	83,255
Total Expenditures	2,380,147	2,296,398	89,790
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(136,919)	293,523	430,442
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	-
Operating transfers (out)	(110,920)	(110,920)	-
Total Other Financing Sources (Uses)	(110,920)	(110,920)	-
CHANGE IN FUND BALANCE	\$ (247,839)	182,603	\$ 430,442
BEGINNING FUND BALANCE		9,724,596	
ENDING FUND BALANCE		\$ 9,907,199	

(Concluded)

ANNUAL COMPREHENSIVE FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

PROPRIETARY FUNDS
INTERNAL SERVICE FUNDS

Internal service funds are used to finance and account for special activities and service performed by a designed department for other departments in the Town on a cost reimbursement basis.

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

However, internal service funds are still presented separately in the fund financial statements and include the following funds:

Equipment Fund was established to account for the replacement of major Town equipment and all vehicle replacement.

Workers' Compensation Fund was established to account for future claims that may occur related to workers compensation injuries.

Self-Insurance Fund was established to account for future general liability claims against the Town.

Information Technology Fund was established to account for the replacement of management information computer systems and components.

Facilities Maintenance Fund was established to account for preventative maintenance and repair for all Town buildings.

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF NET POSITION
JUNE 30, 2023

	Equipment	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
ASSETS						
Cash & Investments	\$ 2,401,161	\$ 2,371,205	\$ 386,654	\$ 2,462,357	\$ 379,020	\$ 8,000,397
Restricted Cash & Investments	-	115,981	-	-	-	115,981
Receivables:						
Accounts	30,531	2,000	-	18,054	24,853	75,438
Leases receivable	-	-	-	-	1,348,155	1,348,155
Subscription assets, net	-	-	-	713,438	-	713,438
Total Assets	\$ 2,431,692	\$ 2,489,186	\$ 386,654	\$ 3,193,849	\$ 1,752,028	\$ 10,253,409
LIABILITIES						
Accounts Payable	\$ 17,972	\$ 5,394	\$ 16,903	\$ 96,381	\$ 106,775	\$ 243,425
Due to Other Governments	-	-	-	-	59	59
Interest payable	-	-	-	27,915	-	27,915
Claims Payable	-	1,968,979	157,729	-	-	2,126,708
Subscription liabilities	-	-	-	594,935	-	594,935
Total Liabilities	\$ 17,972	\$ 1,974,373	\$ 174,632	\$ 719,231	\$ 106,834	\$ 2,993,042
Deferred Inflows of Resources						
Leases	\$ -	\$ -	\$ -	\$ -	\$ 717,495	\$ 717,495
NET POSITION						
Net investment in capital assets	\$ -	\$ -	\$ -	\$ 118,503	\$ -	\$ 118,503
Restricted for:						
Workers compensation claims	-	115,981	-	-	-	115,981
Unrestricted	2,413,720	398,832	212,022	2,356,115	927,699	6,308,388
Total Net Position	\$ 2,413,720	\$ 514,813	\$ 212,022	\$ 2,474,618	\$ 927,699	\$ 6,542,872

TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

	Equipment	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
OPERATING REVENUES						
Charges for services	\$ 639,367	\$ 967,013	\$ 397,216	\$ 753,356	\$ 938,492	\$ 3,695,444
Interest	-	5	-	-	-	5
Use of money and property	-	-	-	-	122,317	122,317
Other local taxes	-	-	-	-	28,322	28,322
Other revenue & reimbursements	78,919	165,757	-	1,745	988	247,409
Total Operating Revenues	718,286	1,132,775	397,216	755,101	1,090,119	4,093,497
OPERATING EXPENSES						
Insurance expenses	-	1,913,146	988,486	-	-	2,901,632
Services and supplies	526,961	-	-	306,771	1,334,225	2,167,957
Depreciation/amortization expense	-	-	-	202,422	-	202,422
Total Operating Expenses	526,961	1,913,146	988,486	509,193	1,334,225	5,272,011
Operating Income (loss)	191,325	(780,371)	(591,270)	245,908	(244,106)	(1,178,514)
NONOPERATING EXPENSES						
Interest expense	-	-	-	(29,221)	-	(29,221)
Income (loss) before transfers	191,325	(780,371)	(591,270)	216,687	(244,106)	(1,207,735)
Transfers (in)	-	-	-	-	243,325	243,325
Transfers (out)	-	-	-	(733,000)	-	(733,000)
Net Transfers	-	-	-	(733,000)	243,325	(489,675)
Change in Net Position	191,325	(780,371)	(591,270)	(516,313)	(781)	(1,697,410)
BEGINNING NET POSITION	2,222,395	1,295,184	803,292	2,990,931	928,480	8,240,282
ENDING NET POSITION	\$ 2,413,720	\$ 514,813	\$ 212,022	\$ 2,474,618	\$ 927,699	\$ 6,542,872

**TOWN OF LOS GATOS
INTERNAL SERVICE FUNDS
COMBINING STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	Equipment	Workers' Comp	Self Insurance	Information Technology	Facilities Maintenance	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from customers	\$ 692,308	\$ 965,018	\$ 397,216	\$ 753,443	\$ 1,124,868	\$ 3,932,853
Payments to suppliers and providers	(528,794)	(1,913,054)	(800,055)	(279,594)	(1,322,101)	(4,843,598)
Insurance reimbursements	-	165,757	-	-	-	165,757
Claims paid	-	604,421	(74,502)	-	-	529,919
Net Cash Provided (Used) by Operating Activities	163,514	(177,858)	(477,341)	473,849	(197,233)	(215,069)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Transfers in	-	-	-	-	243,325	243,325
Transfers out	-	-	-	(733,000)	-	(733,000)
Net Cash Provided (Used) by Noncapital Financing Activities	-	-	-	(733,000)	243,325	(489,675)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Interest paid	-	-	-	(1,306)	-	(1,306)
Acquisition of subscription assets	-	-	-	(320,925)	-	(320,925)
Net Cash Used by Capital and Related Financing Activities	-	-	-	(322,231)	-	(322,231)
Net Increase(Decrease) in Cash and Investments	163,514	(177,858)	(477,341)	(581,382)	46,092	(1,026,975)
Cash and investments - beginning of year	2,237,647	2,665,044	863,995	3,043,739	332,928	9,143,353
Cash and investments - end of year	\$ 2,401,161	\$ 2,487,186	\$ 386,654	\$ 2,462,357	\$ 379,020	\$ 8,116,378
Reconciliation of Operating Income to Cash Flows from Operating Activities:						
Operating Income	\$ 191,325	\$ (780,371)	\$ (591,270)	\$ 245,908	\$ (244,106)	\$ (1,178,514)
Adjustments to reconcile operating income to cash flows from operating activities:						
Depreciation/amortization	-	-	-	202,422	-	202,422
Change in assets and liabilities:						
Accounts receivable	(25,978)	(2,000)	-	(1,658)	-	(29,636)
Leases receivable	-	-	-	-	146,566	146,566
Deferred inflows of resources	-	-	-	-	(111,817)	(111,817)
Accounts payable	(1,833)	92	(24,243)	27,177	12,115	13,308
Due to other governments	-	-	-	-	9	9
Claims payable	-	604,421	138,172	-	-	742,593
Cash Flows From Operating Activities	\$ 163,514	\$ (177,858)	\$ (477,341)	\$ 473,849	\$ (197,233)	\$ (215,069)

Statistical Section

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STATISTICAL (UNAUDITED)

This part of the Town of Los Gatos Annual Comprehensive Financial Report (“ACFR”) presents the detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Town’s overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how Town’s financial performance and well-being have changed over time. (Schedule 1, Schedule 2, Schedule 3, and Schedule 4).

Revenue Capacity

These schedules contain information to help the reader assess one of the Town’s most significant local revenue source, the property tax (Schedule 5, Schedule 6, Schedule 7, and Schedule 8).

Debt Capacity

These schedules present information to help the reader assess the affordability of the Town’s current levels of outstanding debt and its ability to issue additional debt in the future (Schedule 9, Schedule 10, and Schedule 11)

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town’s financial activities take place (Schedule 12, Schedule 13, and schedule 14).

Operating Information

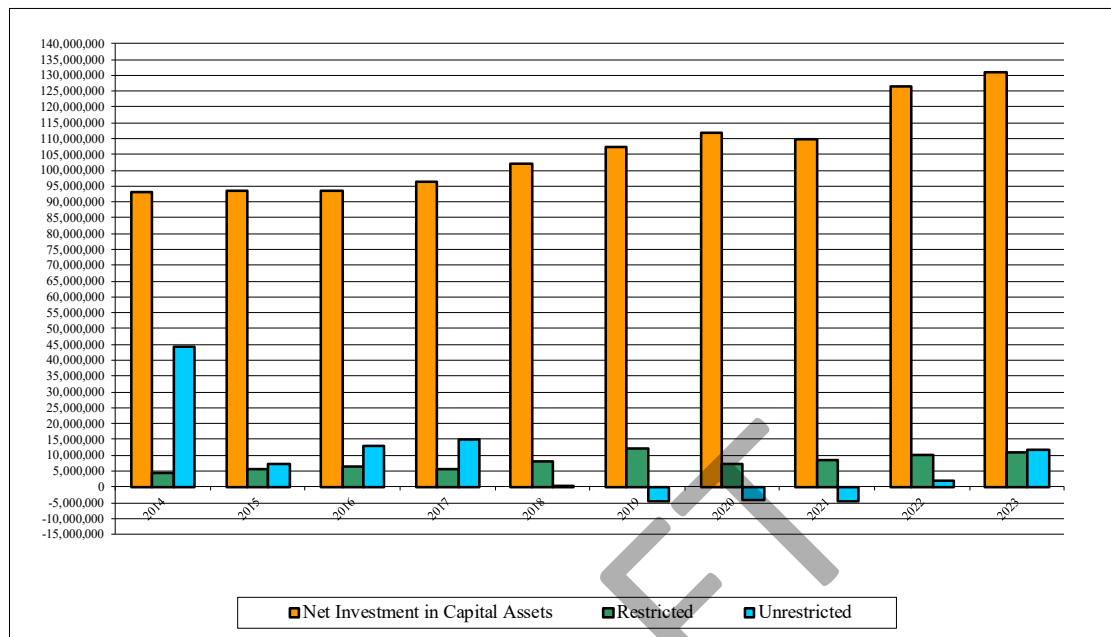
These schedules contain service and infrastructure data to help the reader understand how the information in the Town’s ACFR relates to the services the Town provides and activities it performs (Schedule 15 and Schedule 16).

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Town of Los Gatos
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 1



Fiscal Year	Net Investment in Capital Assets	Restricted	Unrestricted	Total Net Position
2014	93,251,117	4,485,246	44,393,265	142,129,628
2015	93,687,029	5,663,182	7,180,919	106,531,130 (1)
2016	93,383,855	6,386,014	12,744,637	112,514,506
2017	96,265,652	5,627,707	15,134,420	117,027,779
2018	102,098,729	8,199,598	170,590	110,468,917 (2)
2019	107,542,588	11,918,688	-4,642,167	114,819,109 (3)
2020	111,700,225	7,117,984	-3,967,178	114,851,031
2021	109,894,936	8,358,267	-4,735,103	113,518,100
2022	126,418,275	10,203,412	1,785,294	138,406,981
2023	130,888,581	11,091,020	11,542,661	153,522,262

(1) The decrease in Restricted Net Position GASB 68 Implementation of Unfunded Pension Liability of Statement of Net Position.

(2) Net position was restated for FY 2018 for amounts placed into fiduciary funds, reclassified to General Fund Restricted Asset.

(3) The decrease in unrestricted net position resulted largely from the use of approximately \$8.0 million in unrestricted cash balances in the Town's GFAR fund during the year to invest in the Town's infrastructure and equipment.

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

	Fiscal Year				
	2013/14	2014/15	2015/16	2016/17	2017/18
Expenses					
Governmental Activities:					
General Government	\$ 6,955,804	\$ 6,465,852	\$ 6,993,661	\$ 6,771,628	\$ 7,948,918
Public Safety	14,119,786	12,644,221	12,825,688	14,587,597	15,545,521
Parks and Public Works	8,154,616	8,069,352	8,320,623	9,502,707	10,047,003
Community Development	4,424,040	4,047,738	3,227,224	5,093,459	4,667,609
Library Services	2,234,431	2,553,414	2,522,142	2,868,748	3,087,684
Sanitation	363,180	491,359	528,580	466,762	536,296
Redevelopment	21,687	-	-	-	-
Interest and Fees	-	-	-	-	-
Total Governmental Activities	36,273,544	34,271,936	34,417,918	39,290,901	41,833,031
Program Revenues					
Charges for Services:					
General Government	2,179,077	1,888,213	1,517,012	1,669,020	1,701,146
Public Safety	3,206,579	3,529,166	3,278,585	2,076,688	1,888,359
Parks and Public Works	1,550,867	2,206,765	1,516,108	2,155,841	4,150,068
Community Development	5,156,061	5,027,497	4,359,146	3,803,626	3,456,390
Library Services	51,775	53,123	46,192	46,746	14,702
Sanitation	328,648	328,868	368,813	410,626	771,442
Operating Grants and Contributions:					
General Government	-	-	15,291	-	-
Public Safety	42,661	24,838	98,138	837,329	895,730
Parks and Public Works	994,096	907,745	749,300	665,779	953,294
Community Development	-	-	-	-	-
Library Services	14,662	4,062	12,228	-	57,200
Capital Grants and Contributions:					
General Government	-	176,705	-	-	-
Public Safety	-	-	-	-	-
Parks and Public Works	2,274,879	2,338,154	1,610,657	770,600	348,437
Community Development	19,360	-	-	9,280	-
Total Program Revenues	15,818,665	16,485,136	13,571,470	12,445,535	14,236,768
General Revenues and Special Items:					
Property Taxes	11,712,312	12,931,603	13,763,458	14,756,214	15,958,406
Sales Taxes	8,029,571	8,202,678	7,501,175	8,925,276	7,466,253
Franchise Taxes	-	2,215,430	2,258,892	2,366,908	2,474,814
Other Taxes	3,718,405	2,062,893	1,997,497	2,351,223	2,667,840
Motor Vehicle in Lieu	13,068	-	12,308	14,056	16,483
Developer Fees	-	-	-	-	-
Investment Earnings	772,200	428,772	698,324	192,260	333,120
Sale of Property	-	-	-	-	-
Miscellaneous	350,468	813,324	598,170	528,946	622,105
Insurance recoveries	-	-	-	-	-
Total General Revenues and Special Items	24,596,024	26,654,700	26,829,824	29,134,883	29,539,021
Change in Net Position	\$ 4,141,145	\$ 8,867,900	\$ 5,983,376	\$ 2,289,517	\$ 1,942,758

Continued

Town of Los Gatos
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

Schedule 2

	Fiscal Year				
	2018/19	2019/20	2020/21	2021/22	2022/23
Expenses					
Governmental Activities:					
General Government	\$ 8,163,991	\$ 7,405,368	\$ 7,086,377	\$ 15,681,345	\$ 10,522,568
Public Safety	16,635,726	20,446,188	19,808,230	15,093,308	17,428,923
Parks and Public Works	10,627,716	11,803,005	13,141,034	12,969,615	12,258,626
Community Development	5,064,637	5,001,958	6,846,834	5,827,001	5,215,961
Library Services	3,059,294	3,347,523	3,496,153	2,969,954	3,653,642
Sanitation	684,673	3,041	185,981	178,575	208,262
Redevelopment	-	-	-	-	-
Interest and Fees	-	-	-	-	29,221
Total Governmental Activities	44,236,037	48,007,083	50,564,609	52,719,798	49,317,203
Program Revenues					
Charges for Services:					
General Government	1,562,683	1,470,324	1,894,080	1,725,857	2,635,527
Public Safety	1,745,889	1,549,207	1,288,358	1,596,313	1,846,312
Parks and Public Works	2,910,936	3,674,222	4,209,048	5,090,014	3,590,936
Community Development	4,155,231	3,351,753	4,063,776	4,129,718	3,971,336
Library Services	9,476	11,522	-	521	2,039
Sanitation	966,130	231,323	299,478	231,323	359,950
Operating Grants and Contributions:					
General Government	-	12,290	-	2,766,833	-
Public Safety	826,643	952,045	1,061,344	1,144,226	4,622,373
Parks and Public Works	1,301,152	2,824,638	1,547,102	1,482,896	1,735,608
Community Development	-	15,864	223,129	670,929	616,937
Library Services	47,482	49,351	55,181	114,958	174,663
Capital Grants and Contributions:					
General Government	-	8,258	2,365	12,205,050	-
Public Safety	-	9,100	-	-	-
Parks and Public Works	146,792	832,755	843,980	10,021,156	3,915,175
Community Development	-	-	-	-	-
Total Program Revenues	13,672,414	14,992,652	15,487,841	41,179,794	23,470,856
General Revenues and Special Items:					
Property Taxes	17,321,347	18,330,426	19,878,835	21,132,098	22,746,842
Sales Taxes	8,158,152	7,531,425	7,933,604	8,483,673	8,806,477
Franchise Taxes	2,475,916	2,495,792	2,499,463	2,822,515	3,074,624
Other Taxes	2,726,743	1,911,774	1,126,887	2,042,580	2,292,008
Motor Vehicle in Lieu	14,689	24,526	23,058	35,624	34,406
Developer Fees	-	-	-	1,735,571	614,820
Investment Earnings	1,809,128	2,428,470	227,136	(1,278,978)	797,587
Sale of Property	-	-	-	-	-
Miscellaneous	2,407,840	323,940	1,528,039	755,400	1,029,864
Insurance recoveries	-	-	-	-	1,565,000
Total General Revenues and Special Items	34,913,815	33,046,353	33,217,022	35,728,483	40,961,628
Change in Net Position	\$ 4,350,192	\$ 31,922	\$ (1,859,746)	\$ 24,188,479	\$ 15,115,281

Concluded

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2013/14	2014/15	2015/16	2016/17	2017/18
General Fund					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	-	-	-	-	1,206,851
Committed			20,019,187	15,129,925	12,953,399
Assigned	23,791,749	24,121,256	9,555,085	14,050,699	17,475,285
Unassigned	1,363,376	-	-	-	-
Total General Fund	<u>\$ 25,155,125</u>	<u>\$ 24,121,256</u>	<u>\$ 29,574,272</u>	<u>\$ 29,180,624</u>	<u>\$ 31,635,535</u>
All Other Governmental Funds					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	4,485,246	5,663,182	6,386,014	5,627,707	6,992,747
Committed	-	-	3,696,000	10,354,584	5,571,087
Assigned	8,191,823	15,346,558	11,099,076	7,928,994	6,361,403
Unassigned	183,045	206,875	-	-	-
Total All Other Governmental Funds	<u>\$ 12,860,114</u>	<u>\$ 21,216,615</u>	<u>\$ 21,181,090</u>	<u>\$ 23,911,285</u>	<u>\$ 18,925,237</u>
Total Fund Balances	<u>\$ 38,015,239</u>	<u>\$ 45,337,871</u>	<u>\$ 50,755,362</u>	<u>\$ 53,091,909</u>	<u>\$ 50,560,772</u>

Continued

Town of Los Gatos
Fund Balance, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year				
	2018/19	2019/20	2020/21	2021/22	2022/23
General Fund					
Nonspendable	\$ -	\$ -	\$ 159,000	\$ 159,000	\$ 159,000
Restricted	5,015,316	669,978	-	690,000	1,444,501
Committed	15,070,944	15,387,706	11,220,970	12,283,132	13,150,130
Assigned	18,256,895	13,277,813	12,534,648	13,764,657	14,774,673
Unassigned	-	-	-	-	-
Total General Fund	<u>\$ 38,343,155</u>	<u>\$ 29,335,497</u>	<u>\$ 23,914,618</u>	<u>\$ 26,896,789</u>	<u>\$ 29,528,304</u>
All Other Governmental Funds					
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ 55,977
Restricted	6,903,372	6,448,006	8,562,653	9,383,483	9,530,538
Committed	2,579,997	-	-	637,711	2,590,257
Assigned	6,180,930	14,181,679	15,360,481	13,944,155	19,480,452
Unassigned	-	-	-	-	-
Total All Other Governmental Funds	<u>\$ 15,664,299</u>	<u>\$ 20,629,685</u>	<u>\$ 23,923,134</u>	<u>\$ 23,965,349</u>	<u>\$ 31,657,224</u>
Total Fund Balances	<u>\$ 54,007,454</u>	<u>\$ 49,965,182</u>	<u>\$ 47,837,752</u>	<u>\$ 50,862,138</u>	<u>\$ 61,185,528</u>

Concluded

Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 4

	Fiscal Year				
	2013/14	2014/15	2015/16	2016/17	2017/18
Revenues:					
Taxes	\$ 23,475,393	\$ 23,208,820	\$ 23,269,892	\$ 25,945,129	\$ 26,253,026
Licenses & Permits	5,343,265	6,467,771	5,442,133	5,075,503	5,937,044
Intergovernmental	2,440,127	2,921,002	2,573,475	1,715,580	2,124,903
Charges for Services	5,837,581	5,794,386	4,773,001	4,210,174	5,395,057
Fines and Forfeitures	795,720	868,564	879,277	917,105	676,212
Franchise Fees	-	2,215,430	2,258,892	2,366,908	2,474,814
Developer Fees	-	-	-	-	-
Investment Income	772,164	428,735	698,308	192,978	332,938
Use of Property	37,741	32,209	31,723	32,096	32,206
Other	3,648,277	3,130,975	2,396,992	1,011,939	640,844
Total Revenues	42,350,268	45,067,892	42,323,693	41,467,412	43,867,044
Expenditures:					
Current					
General Government	8,499,854	8,647,451	9,144,797	8,390,959	8,770,082
Public Safety	13,742,189	13,747,198	13,763,316	13,251,288	14,423,554
Parks and Public Works	5,611,283	5,840,097	6,307,266	6,633,748	7,125,686
Community Development	4,335,599	4,218,500	3,695,504	3,793,930	4,192,165
Library Services	2,131,438	2,268,844	2,332,268	2,508,677	2,529,017
Sanitation & Other	322,817	411,863	452,726	466,762	521,147
Capital Outlay	4,097,662	3,800,478	3,241,657	6,867,034	9,778,058
Debt Service					
Principal Repayment	-	-	-	-	-
Total Expenditures	38,740,842	38,934,431	38,937,534	41,912,398	47,339,709
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	3,609,426	6,133,461	3,386,159	(444,986)	(3,472,665)
Other Financing Sources(Uses):					
Transfers In	3,418,872	8,977,220	3,315,846	7,907,692	3,176,760
Transfers Out	(2,921,409)	(7,788,049)	(1,284,514)	(7,612,012)	(3,880,131)
Gain from Sale of Property	-	-	-	-	378,219
Insurance Recoveries	-	-	-	-	-
Issuance of Debt	-	-	-	4,435	-
Total Other Financing Sources(Uses)	497,463	1,189,171	2,031,332	300,115	(325,152)
Special Item:					
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-
Prepayment of Pension Obligations	(4,534,538)	-	-	-	-
Net Change in Fund Balances	\$ 4,106,889	\$ 7,322,632	\$ 5,417,491	\$ (144,871)	\$ (3,797,817)
Capitalized Capital Outlay	\$ 4,097,662	\$ 3,800,478	\$ 3,241,657	\$ 6,867,034	\$ 9,778,058
Debt Service as a Percentage					
of Non Capital Expenditures	0.00%	0.00%	0.00%	0.00%	0.00%

Continued

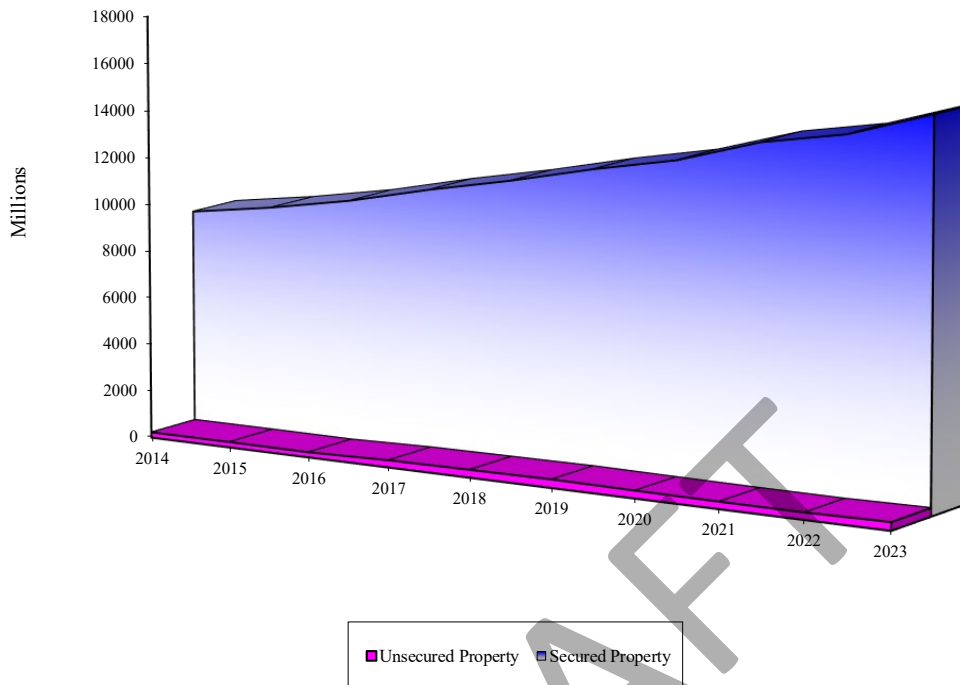
Town of Los Gatos
Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Schedule 4

	Fiscal Year				
	2018/19	2019/20	2020/21	2021/22	2022/23
Revenues:					
Taxes	\$ 28,244,329	\$ 27,811,665	\$ 28,977,919	\$ 31,627,593	\$ 33,851,411
Licenses & Permits	5,173,876	4,818,671	5,212,831	6,055,040	6,333,675
Intergovernmental	2,310,655	4,498,153	3,746,587	15,492,982	10,145,820
Charges for Services	5,584,504	5,309,470	6,035,659	6,925,359	5,718,714
Fines and Forfeitures	510,266	271,117	103,468	319,170	416,950
Franchise Fees	2,475,916	2,495,792	2,499,463	2,822,515	3,074,624
Developer Fees	-	-	-	1,735,571	614,820
Investment Income	1,809,164	2,428,453	227,940	(1,278,983)	797,582
Use of Property	32,960	31,039	40,372	144,901	237,647
Other	579,755	376,922	423,115	349,145	985,188
Total Revenues	46,721,425	48,041,282	47,267,354	64,193,293	62,176,431
Expenditures:					
Current					
General Government	8,004,254	13,024,146	14,040,134	15,953,968	8,828,779
Public Safety	14,945,407	15,793,815	16,570,836	16,451,190	18,446,048
Parks and Public Works	7,962,135	8,168,599	8,229,944	8,639,128	9,084,406
Community Development	4,577,495	4,473,790	5,195,302	6,313,511	5,065,412
Library Services	2,493,617	2,700,802	2,847,988	2,827,210	3,208,027
Sanitation & Other	628,240	162,837	166,173	194,969	204,097
Capital Outlay	7,888,914	7,861,972	5,707,439	10,478,670	8,917,075
Debt Service					
Principal Repayment	-	-	39,008	156,034	156,034
Total Expenditures	46,500,062	52,185,961	52,796,824	61,014,680	53,909,878
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	221,363	(4,144,679)	(5,529,470)	3,178,613	8,266,553
Other Financing Sources(Uses):					
Transfers In	4,264,131	8,935,260	4,053,535	8,154,307	11,886,022
Transfers Out	(3,323,756)	(8,628,719)	(3,940,015)	(8,310,685)	(11,396,347)
Gain from Sale of Property	1,912,316	1,566	1,201,369	2,151	2,162
Insurance Recoveries	-	-	-	-	1,565,000
Issuance of Debt	-	-	1,560,336	-	-
Total Other Financing Sources(Uses)	2,852,691	308,107	2,875,225	(154,227)	2,056,837
Special Item:					
Extraordinary Gain (Loss) RDA Dissolution	-	-	-	-	-
Prepayment of Pension Obligations	-	-	-	-	-
Net Change in Fund Balances	\$ 3,074,054	\$ (3,836,572)	\$ (2,654,245)	\$ 3,024,386	\$ 10,323,390
Debt Service as a Percentage					
of Non Capital Expenditures	0.00%	0.00%	0.08%	0.30%	0.35%

Concluded

Town of Los Gatos
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Fiscal Years

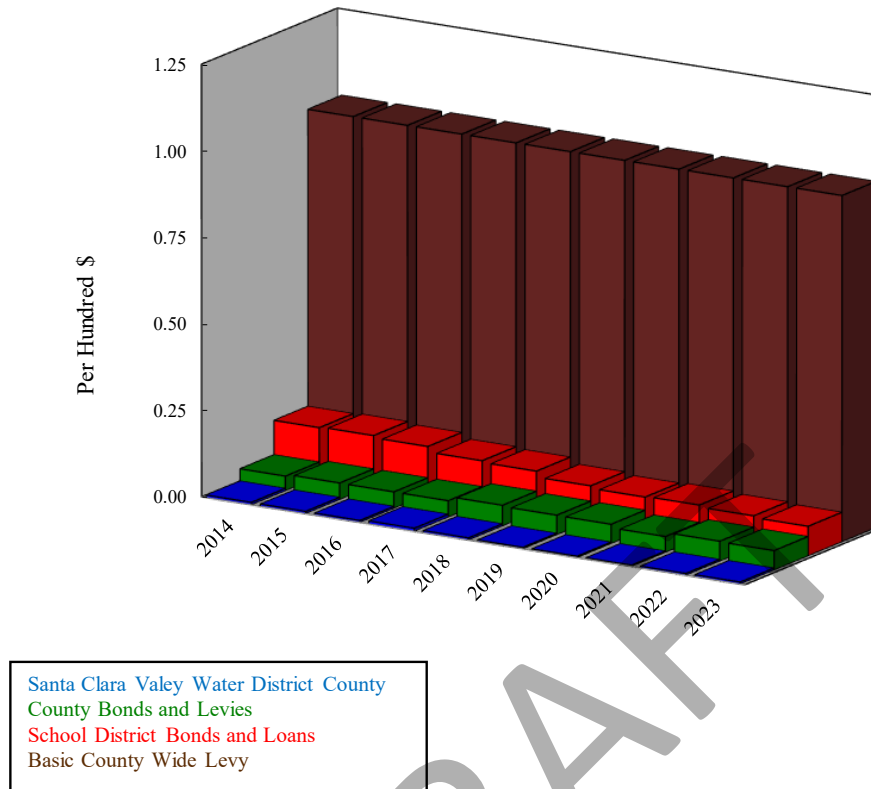


Fiscal Year	Utility and Unsecured Property	Percent Change	Secured Property	Percent Change	Total Assessed	Estimated Full Market	Total Direct Tax Rate
2014	\$ 224,079,502	6.06%	\$ 9,238,816,900	9.14%	\$ 9,462,896,402	\$ 36,955,267,600	1.0493
2015	227,331,042	1.45%	9,767,782,505	5.73%	9,995,113,547	39,071,130,020	1.0544
2016	217,035,545	-4.53%	10,417,804,357	6.65%	10,634,839,902	41,671,217,428	1.0533
2017	304,443,013	40.27%	11,240,554,198	7.90%	11,544,997,211	44,962,216,792	1.0560
2018	330,504,877	8.56%	11,969,049,272	6.48%	12,299,554,149	47,876,197,088	1.0659
2019	359,276,665	8.71%	12,795,393,103	6.90%	13,154,669,768	51,181,572,412	1.0607
2020	331,517,212	-7.73%	13,510,676,336	5.59%	13,842,193,548	54,042,705,344	1.0598
2021	308,749,655	-6.87%	14,599,669,332	8.06%	14,908,418,987	58,398,677,328	1.0494
2022	304,460,199	-1.39%	15,255,884,284	4.49%	15,560,344,483	61,023,537,136	1.0627
2023	357,370,065	17.38%	16,404,930,826	7.53%	16,762,300,891	65,619,723,304	1.0616

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 Special Districts	School District Bonds and Loans	Total
2014	1.0000	0.0423	0.0070	0.1417	1.1910
2015	1.0000	0.0479	0.0065	0.1442	1.1986
2016	1.0000	0.0476	0.0057	0.1381	1.1914
2017	1.0000	0.0474	0.0086	0.1223	1.1783
2018	1.0000	0.0597	0.0062	0.1177	1.1836
2019	1.0000	0.0565	0.0042	0.1006	1.1613
2020	1.0000	0.0557	0.0041	0.0935	1.1533
2021	1.0000	0.0457	0.0037	0.0959	1.1453
2022	1.0000	0.0576	0.0051	0.0902	1.1529
2023	1.0000	0.0559	0.0057	0.0854	1.1470

Source: Santa Clara County Book of Tax Rates

Town of Los Gatos
Principle Property Tax Payers
Last Ten Fiscal Years *

ASSEESSEE NAME	2013/14		2014/15		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	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
750 University LLC	\$ 18,600,000	0.19%	\$ 19,000,000	0.18%	\$ 19,379,620	0.19%	\$ 19,675,159	0.18%	\$ 25,241,863	0.21%
980 JR LLC										
140 Toll House Hotel LLC										
Alberto Way Holdings LLC	23,607,964	0.24%	23,715,141	0.23%	24,188,966	0.23%	24,557,845	0.22%	25,048,998	0.21%
Ann R. Desantis	13,823,779	0.14%								
A W Los Gatos LLC										
Boccardo Corporation	38,617,912	0.40%	38,772,905	0.37%	21,617,318	0.21%	21,918,921	0.20%	22,211,650	0.19%
CH Realty IV Downing LP	19,916,443	0.20%								
CHL Ventures LP	-	0.00%								
D&K Los Gatos LLC	15,901,809	0.16%	15,974,003	0.15%	16,293,163	0.16%				
David A. and Shari Flick Trustee			15,388,884	0.15%						
Donahue Schriber Realty Group LP									53,872,083	0.45%
DS Downing Los Gatos LLC			20,006,861	0.19%	21,980,568	0.21%	22,315,770	0.20%		
DS Village Square							22,799,599	0.20%		
El Camino Hospital			20,803,609	0.20%	26,477,160	0.25%	26,880,933	0.24%	23,353,576	0.20%
Equestrian 3 Investments LLC									29,584,251	0.25%
Fox Creek Fund LLC										
Good Samaritan Hospital LP	19,710,897	0.20%	19,602,594	0.19%	19,880,366	0.19%	22,402,756	0.20%	22,516,823	0.19%
Grade Way Associations VI	15,094,623	0.15%	15,163,152	0.15%						
Green Eyes LLC	12,793,404	0.13%								
Grosvenor USA Ltd.	22,886,720	0.23%	22,990,624	0.22%	23,449,975	0.23%				
Health Care REIT Inc.	20,671,960	0.21%	20,765,810	0.20%	20,089,903	0.19%	20,396,274	0.18%		
Hercules Holding II LLC										
International Hotel									30,144,617	0.25%
Kay K. & Go Sasaki Sr., Trustee	22,752,809	0.23%			24,744,983	0.24%	25,122,131	0.22%	25,624,027	0.21%
Knowles Los Gatos LLC	47,986,850	0.49%	48,204,708	0.46%	49,167,836	0.47%	49,917,644	0.44%	50,915,995	0.43%
KSL Capital Partners	43,383,370	0.44%	43,580,326	0.42%	30,134,614	0.29%	30,105,945	0.27%	25,893,946	0.22%
Leland E Lester, Trustee							29,004,169	0.26%		
LG Business Park Bldg 3 LLC					61,947,284	0.59%			53,465,724	0.45%
LG Business Park Bldg 4 LLC									43,937,857	0.37%
LG Business Park LLC	47,276,977	0.48%	39,347,485	0.38%	17,507,261	0.17%	31,070,572	0.28%		
LG Hotel LLC			15,448,057	0.15%	15,497,395	0.15%				
Los Gatos Hotel Corp.	18,134,182	0.19%	15,573,314	0.15%	15,676,113	0.15%				
Lyon Baytree Apartments LLC	14,674,716	0.15%								
Paul H. Roskoph										
Preylock Los Gatos LLC										
Safeway Inc.									24,394,468	0.20%
San Jose Water Works	33,626,381	0.34%	36,693,453	0.35%	37,081,049	0.36%	38,710,728	0.34%	41,202,805	0.34%
Serramonte Corporate Center LLC										
SI 32 LLC			150,563,119	1.45%	141,348,894	1.36%	143,442,269	1.28%	146,317,944	1.22%
SF Los Gatos LLC										
Sobrato Interests IV LLC	169,809,676	1.74%	20,869,338	0.20%	44,930,482	0.43%	42,240,994	0.38%	43,071,837	0.36%
SRI Old Town LLC	30,981,771	0.32%	31,122,427	0.30%	31,744,252	0.30%	32,228,351	0.29%	32,872,917	0.27%
Summerhill N40 LLC										
Summerhill Prospect Avenue LLC							18,274,508	0.16%		
Wealthcap Los Gatos 121							109,100,000	0.97%	111,282,000	0.93%
Wealthcap Los Gatos 31							84,000,000	0.75%	85,680,000	0.72%
Total - Principal taxpayers	\$ 650,252,243	7.68%	\$ 394,337,473	6.49%	\$ 1,296,723,012	6.37%	\$ 814,164,568.00	7.24%	\$ 916,633,381	7.66%
Total - All real properties assessed by the Town (1)	\$9,237,887,980		\$9,766,765,025		\$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.

Continued

Town of Los Gatos
Principle Property Tax Payers
Last Ten Fiscal Years *

ASSEESSEE NAME	2018/19		2019/20		2020/21		2021/22		2022/23	
	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value	Taxable Assessed Value	Percentage of Total City Taxable Assessed Value
750 University LLC	\$ 25,746,699	0.20%	\$ 26,261,632	0.19%	\$ 26,786,863	0.18%	\$ 27,064,374	0.19%	\$ 27,605,660	0.17%
980 JR LLC	\$ 19,277,879	0.15%								
140 Toll House Hotel LLC					35,043,180	0.24%	35,499,104	0.24%	34,808,066	0.21%
Alberto Way Holdings LLC	25,549,975	0.20%	24,158,350	0.18%	24,641,514	0.17%	24,896,799	0.17%		
Ann R. Desantis										
A W Los Gatos LLC									26,749,500	0.16%
Boccardo Corporation	22,651,732	0.18%	23,099,314	0.17%					24,268,078	0.15%
CH Realty IV Downing LP										
CHL Ventures LP										
D&K Los Gatos LLC										
David A. and Shari Flick Trustee										
Donahue Schriber Realty Group LP	56,370,186	0.44%	57,497,587	0.43%	58,647,535	0.40%	59,255,121	0.41%	60,440,222	0.37%
DS Downing Los Gatos LLC										
DS Village Square										
El Camino Hospital	28,596,104	0.22%	30,789,155	0.23%	42,611,768	0.29%	50,456,560	0.35%	43,379,731	0.26%
Equestrian 3 Investments LLC	28,563,864	0.22%	25,525,880	0.19%	26,036,395	0.18%	26,306,130	0.18%	26,832,251	0.16%
Fox Creek Fund LLC	21,558,664	0.17%					27,231,335	0.19%	27,078,255	0.17%
Good Samaritan Hospital LP	22,934,274	0.18%	23,391,289	0.17%	23,846,402	0.16%	24,111,608	0.17%	24,569,780	0.15%
Grade Way Associations VI										
Green Eyes LLC										
Grosvenor USA Ltd.										
Health Care REIT Inc.										
Hercules Holding II LLC										
International Hotel	30,747,509	0.24%	31,362,458	0.23%	31,989,706	0.22%				
Kay K. & Go Sasaki Sr., Trustee	26,135,962	0.20%	28,864,942	0.21%	27,190,951	0.19%	27,471,495	0.19%	28,020,326	0.17%
Knowles Los Gatos LLC	51,934,313	0.41%	52,972,998	0.39%	54,032,455	0.37%	54,592,229	0.37%	55,684,072	0.34%
KSL Capital Partners	26,411,820	0.21%	33,069,058	0.24%	33,118,759	0.23%	33,037,818	0.23%	32,098,542	0.20%
Leland E Lester, Trustee										
LG Business Park Bldg 3 LLC										
LG Business Park Bldg 4 LLC										
LG Business Park LLC										
LG Hotel LLC										
Los Gatos Hotel Corp.										
Lyon Baytree Apartments LLC										
Paul H. Roskoph										
Preylock Los Gatos LLC			89,141,472	0.66%	95,880,000	0.66%	96,873,316	0.66%	98,810,782	0.60%
Safeway Inc.			25,752,231	0.19%	25,577,034	0.18%				
San Jose Water Works	46,150,577	0.36%	47,777,432	0.35%	49,649,154	0.34%	53,320,614	0.37%	51,657,625	0.31%
Serramonte Corporate Center LLC	200,844,610	1.57%	204,861,501	1.52%	208,958,729	1.43%	211,123,540	1.45%	215,346,008	1.31%
SI 32 LLC	149,208,182	1.17%	152,166,578	1.13%	155,181,793	1.06%	158,132,236	1.08%	159,929,209	0.97%
SF Los Gatos LLC							33,214,527	0.23%		
Sobrato Interests IV LLC	43,919,879	0.34%	44,781,377	0.33%	45,682,006	0.31%	46,155,127	0.32%	47,067,863	0.29%
SRI Old Town LLC	33,530,374	0.26%	34,200,980	0.25%	34,884,999	0.24%	35,246,406	0.24%	35,951,333	0.22%
Summerhill N40 LLC			56,244,782	0.42%	57,369,661	0.39%	59,462,462	0.41%	71,006,795	0.43%
Summerhill Prospect Avenue LLC										
Wealthcap Los Gatos 121	113,507,640	0.89%	115,777,792	0.86%	118,093,347	0.81%	119,316,793	0.82%	121,703,128	0.74%
Wealthcap Los Gatos 31	87,393,600	0.68%								
Total - Principal taxpayers	\$ 1,061,033,843	8.29%	\$ 1,127,696,808	8.35%	\$ 1,175,222,251	8.05%	\$ 1,202,767,594	8.24%	\$ 1,213,007,226	7.39%
Total - All real properties assessed by the Town (1)	\$12,793,751,423		\$13,509,034,656		\$14,598,027,652		\$15,254,242,604		\$16,403,289,146	

(1) Assessed value includes only net secured real properties.

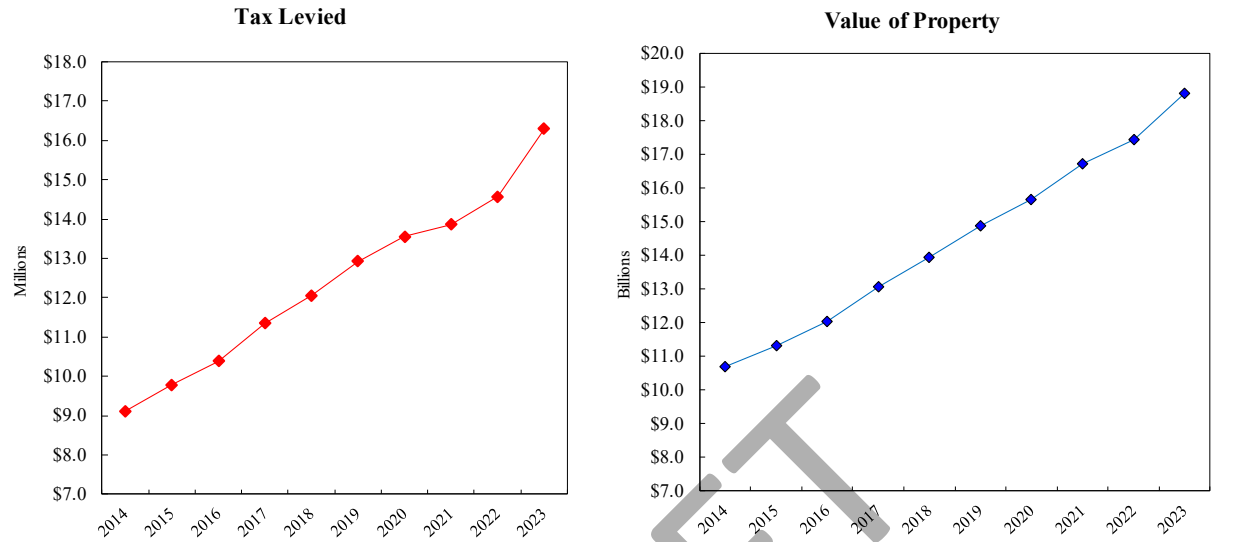
(2) Excludes the value of tax-exempt properties

Source Data: California Municipal Statistics, Inc.

Concluded

Town of Los Gatos
Property Tax Levies and Collections
Last Ten Fiscal Years

Schedule 8



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
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	1,715,982,555	15,651,922,606
2021	13,864,271	-	13,864,271	14,908,418,987	1,809,729,058	16,718,148,045
2022	14,566,808	-	14,566,808	15,560,344,483	1,891,297,788	17,451,642,271
2023	16,300,797	-	16,300,797	16,762,300,891	2,047,530,717	18,809,831,608

Sources: Santa Clara County Auditor-Controller Office and the Town of Los Gatos

Town of Los Gatos
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Schedule 9

Governmental Activities					
Fiscal Year	PG&E Loan	Total Governmental Activities	Total Primary Government	Percentage of Personal Income	Per Capita
2014	-	-	-	0.0%	0.00
2015	-	-	-	0.0%	0.00
2016	-	-	-	0.0%	0.00
2017	-	-	-	0.0%	0.00
2018	-	-	-	0.0%	0.00
2019	-	-	-	0.0%	0.00
2020	-	-	-	0.0%	0.00
2021	\$ 1,508,325	\$ 1,508,325	\$ 1,508,325	56.2%	48.91
2022	\$ 1,352,291	\$ 1,352,291	\$ 1,352,291	44.3%	40.90
2023	\$ 1,196,257	\$ 1,196,257	\$ 1,196,257	34.7%	36.14

Debt was transferred to the Successor Agency Trust Fund as a part of the RDA dissolution in FY 2011

Town of Los Gatos
Direct and Overlapping Governmental Activities Debt
As of June 30, 2023

2022/23 Assessed Valuation:

\$16,762,300,891

Estimated Share
of Direct and
Overlapping Debt
at June 30, 2023

DIRECT AND OVERLAPPING BONDED DEBT:

Overlapping Tax & Assessment Debt

	% Applicable ⁽¹⁾	Total Debt at June 30, 2023	
Santa Clara County	2.708%	\$ 1,041,125,000	\$ 28,193,665
West Valley-Mission Community College District	9.426%	\$ 694,320,000	\$ 65,446,603
Campbell Union High School District	7.776%	\$ 354,085,000	\$ 27,533,650
Los Gatos-Saratoga Joint Union High School District	36.333%	\$ 81,235,000	\$ 29,515,113
Cambrian School District	0.648%	\$ 96,314,944	\$ 624,121
Campbell Union School District	7.620%	\$ 205,899,324	\$ 15,689,528
Los Gatos Union School District	74.055%	\$ 62,020,000	\$ 45,928,911
Saratoga Union School District	0.032%	\$ 15,206,197	\$ 4,866
Union School District	20.230%	\$ 144,497,533	\$ 29,231,851
Midpeninsula Regional Open Space District	4.400%	\$ 82,680,000	\$ 3,637,920
Santa Clara Valley Water District Benefit Assessment District	2.708%	\$ 38,900,000	\$ 1,053,412
Total Overlapping Tax and Assessment Debt			\$ 246,859,640

Overlapping General Fund Debt

Santa Clara County General Fund Obligations	2.708%	\$ 1,120,404,570	\$ 30,340,556
Santa Clara County Pension Obligation Bonds	2.708%	\$ 329,741,844	\$ 8,929,409
Santa Clara County Board of Education Certificates of Participation	2.708%	\$ 935,000	\$ 25,320
West Valley-Mission Community College District General Fund Obligations	9.426%	\$ 8,160,000	\$ 769,162
Campbell Union High School District General Fund Obligations	7.776%	\$ 14,500,000	\$ 1,127,520
Los Gatos-Saratoga Joint Union High School District Certificates of Participation	36.333%	\$ 149,000	\$ 54,136
Campbell Union School District General Fund Obligations	7.620%	\$ 1,575,000	\$ 120,015
Saratoga Union School District Certificates of Participation	0.032%	\$ 1,905,000	\$ 610
Town of Los Gatos	100.000%	\$ -	\$ -
Santa Clara County Vector Control District Certificates of Participation	2.708%	\$ 1,230,000	\$ 33,308
Santa Clara County Central Fire Protection District Certificates of Participation	25.763%	\$ 27,755,000	\$ 7,150,521
Midpeninsula Regional Open Space Park District General Fund Obligations	4.400%	\$ 91,570,600	\$ 4,029,106
Total Gross Overlapping General Fund Debt			\$ 52,579,663
Less: Santa Clara County Supported Obligations			\$ 284,888
Total Overlapping General Fund Debt			\$ 52,294,775

Overlapping Tax Increment Debt (Successor Agency)

Town of Los Gatos Certificated of Participations	\$ 11,430,000
Total of Overlapping Tax Increment Debt	\$ 11,430,000

Total Direct Debt

Total Gross Overlapping Debt	\$ 310,869,303
Total Net Overlapping Debt	\$ 310,584,415

Gross Combined Total Debt	\$ 310,869,303 ⁽²⁾
Net Combined Total Debt	\$ 310,584,415

⁽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 2022/23 Assessed Valuation:

Total Overlapping Tax and Assessment Debt: 1.47%

Total Direct Debt: 0.00%

Gross Combined Total Debt: 1.85%

Net Combined Total Debt: 1.85%

Ratios to Redevelopment Incremental Valuation (\$1,792,881,346):

Total Overlapping Tax Increment Debt: 0.64%

Source Data: California Municipal Statistics, Inc.

Town of Los Gatos
Legal Debt Margin Information,
Last Ten Fiscal Years
(In Thousands of Dollars)

Legal Debt Margin Calculation
for Fiscal Year 2022/23

Assessed Value	\$	16,762,300,891
Debt Limit		2,514,345,134
Debt Applicable to Limit:		
Legal Debt Margin	\$	<u>2,514,345,134</u>

	Fiscal Year									
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Debt Limit	\$1,263,138	\$1,379,254	\$1,444,943	\$1,556,252	\$1,679,736	\$1,789,097	\$2,076,329	\$2,236,263	\$2,334,052	\$2,514,345
Debt Applicable to Limit	-	-	-	-	-	-	-	-	1,352	1,196
Legal Debt Margin	<u>\$1,263,138</u>	<u>\$1,379,254</u>	<u>\$1,444,943</u>	<u>\$1,556,252</u>	<u>\$1,679,736</u>	<u>\$1,789,097</u>	<u>\$2,076,329</u>	<u>\$2,236,263</u>	<u>\$2,332,699</u>	<u>\$2,513,149</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%	0.05%

Notes:

- (1) The Town of Los Gatos is a general law city and has a debt limit of 15%.
(2) Excludes RDA assessed valuation and debt transferred to the Successor Agency trust as a part of the RDA dissolution.

Town of Los Gatos
Demographic and Economic Statistics
Last Ten Fiscal Years

Schedule 12

Fiscal Year Ended	Population (1)	Personal Income (thousands of dollars) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	County Unemployment Rate (6)
2014	30,443	\$ 2,267,912	74,497	45.80	6,522	5.7%
2015	30,505	\$ 2,197,885	72,050	46.10	6,622	3.8%
2016	31,376	\$ 2,286,087	72,861	46.30	6,646	3.5%
2017	31,314	\$ 2,281,569	72,861	46.50	6,631	3.8%
2018	30,601	\$ 2,290,638	74,855	46.81	6,588	2.6%
2019	30,998	\$ 2,365,178	76,301	46.72	6,544	2.6%
2020	31,439	\$ 2,546,748	81,006	46.83	6,520	10.7%
2021	30,836	\$ 2,686,155	87,111	46.83	6,180	5.2%
2022	33,062	\$ 3,055,987	92,432	46.67	6,000	2.2%
2023	33,102	\$ 3,443,767	104,035	46.76	5,895	3.7%

Source:

- (1) California State Dept. of Finance - Population Research Unit (January 2023)
- (2) California State Dept. of Finance - Estimate equals county per capita average times population
- (3) US Census Bureau - QuickFacts
- (4) Claritas demographic snapshot report
- (5) Los Gatos Saratoga Joint Union and Los Gatos Union Elementary School Districts
- (6) State of California, Employment Development Dept., Labor Market Info. Div.

Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

	2013/14		2014/15		2015/16		2016/17		2017/18	
	Percentage of Total Town Emp.	Employment	Percentage of Total Town Emp.	Employment	Percentage of Total Town Emp.	Employment	Percentage of Total Town Emp.	Employment	Percentage of Total Town Emp.	Employment
<u>Principal Employers</u>										
Columbia Health Care Assoc/Mission Oaks Hospital	2,000	13.52%	-	0.00%	-	0.00%	-	0.00%		0.00%
El Camino Hospital, Los Gatos	700	4.73%	560	3.73%	560	3.53%	560	3.49%	560	3.43%
Los Gatos Union School District	237	1.60%	273	1.82%	280	1.76%	274	1.71%	267	1.64%
Los Gatos-Saratoga High School District	256	1.73%	157	1.05%	157	0.99%	370	2.30%	367	2.25%
Netflix	825	5.58%	1,530	10.19%	1,976	12.45%	1,864	11.61%	2,117	12.98%
Safeway	250	1.69%	314	2.09%	314	1.98%	314	1.95%	314	1.92%
Alain Pinel Realtors	156	1.05%	156	1.04%	146	0.92%	148	0.92%	131	0.80%
Courtside Tennis Club	295	1.99%	440	2.93%	440	2.77%	468	2.91%	542	3.32%
Town of Los Gatos	144	0.97%	157	1.05%	158	1.00%	160	1.00%	159	0.97%
Whole Foods	-	0.00%	179	1.19%	179	1.13%	179	1.11%	179	1.10%
Vasona Creek Health Care Center	-	0.00%	233	1.55%	233	1.47%	233	1.45%	233	1.43%
Good Samaritan Regional Cancer Center	-	0.00%	200	1.33%	200	1.26%	200	1.25%	200	1.23%
Roku	-	0.00%	-	0.00%	487	3.07%	554	3.45%	664	4.07%
Terraces of Los Gatos	-	0.00%	-	0.00%	228	1.44%	228	1.42%	228	1.40%

Source: Town of Los Gatos, Finance
Department and Muniservices

Continued

Town of Los Gatos
Principal Employers
Last Ten Fiscal Years

	2018/19		2019/20		2020/21		2021/22		2022/23	
	Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town		Percentage of Total Town	
<u>Principal Employers</u>	Emp.	Employment	Emp.	Employment	Emp.	Employment	Emp.	Employment	Emp.	Employment
Columbia Health Care Assoc/Mission Oaks Hospital		0.00%		0.00%		0.00%		0.00%		0.00%
El Camino Hospital, Los Gatos	560	3.49%	560	3.49%	560	3.35%	517	3.09%	509	3.04%
Los Gatos Union School District	281	1.75%	281	1.75%	281	1.68%	281	1.68%	281	1.68%
Los Gatos-Saratoga High School District	367	2.28%	367	2.28%	320	1.92%	320	1.91%	320	1.91%
Netflix	2,314	14.41%	2,314	14.41%	2,524	15.11%	2,278	13.62%	2,263	13.53%
Safeway	314	1.95%	314	1.95%	314	1.88%	314	1.88%	314	1.88%
Alain Pinel Realtors	131	0.82%	131	0.82%		0.00%		0.00%		0.00%
Courtside Tennis Club	542	3.37%	542	3.37%	542	3.24%	542	3.24%	542	3.24%
Town of Los Gatos	160	1.00%	160	1.00%	161	0.96%	165	0.99%	163	0.97%
Whole Foods	125	0.78%	125	0.78%	125	0.75%	180	1.08%	132	0.79%
Vasona Creek Health Care Center	233	1.45%	233	1.45%	250	1.50%	250	1.49%	250	1.49%
Good Samaritan Regional Cancer Center	200	1.25%	200	1.25%	200	1.20%	200	1.20%	200	1.20%
Roku	516	3.21%	516	3.21%		0.00%		0.00%		0.00%
Terraces of Los Gatos	228	1.42%	228	1.42%	228	1.36%	200	1.20%	200	1.20%

Source: Town of Los Gatos, Finance
Department and Muniservices

Concluded

Town of Los Gatos
 Full-time-Equivalent Employees by Function/Program
 Last Ten Fiscal Years

Function/Program	Fiscal Year									
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
General Government	20.73	20.97	20.97	21.35	21.97	22.16	21.80	21.80	22.06	22.05
Police	57.50	60.00	59.00	59.00	59.00	59.00	60.00	60.00	60.00	60.00
Economic Development	0.50	0.63	0.63	0.63	0.75	0.75	0.75	0.75	0.75	0.75
Library	10.30	10.80	11.00	12.25	12.25	12.50	12.50	12.50	12.50	13.50
Planning	17.50	19.50	19.00	19.26	19.63	20.08	20.08	20.20	20.20	20.20
Public Works	31.50	32.00	33.50	33.50	34.50	34.50	34.50	34.75	34.75	36.75
Total	138.03	143.90	144.10	145.98	148.10	148.99	149.63	150.00	150.26	153.25

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.

Town of Los Gatos
Operating Indicators
Last Ten Fiscal Years

FUNCTION/PROGRAM

	Fiscal Year				
	2013/14	2014/15	2015/16	2016/17	2017/18
General government					
Building Permits Issued					
Residential Permits Issued	813	805	899	744	849
Residential Permits Value	87,307,822	76,896,111	85,000,754	53,625,891	63,083,249
Commercial Permits Issued	139	133	147	135	105
Commercial Permits Value	138,676,507	178,195,997	20,185,884	50,024,177	16,626,196
Publicly Owned Permits Issued	-	-	-	-	-
Publicly Owned Permits Value	-	-	-	-	-
Residential Parking Permits					
Number of Special Event Permits Issued	133	127	107	118	113
Number of Annual Permits Issued	1,376	1,570	1,363	1,251	1,342
City Clerk					
Number of Council Resolutions Passed	86	72	61	69	69
Number of Ordinances Passed	16	9	11	5	17
Number of Contracts Passed	196	222	283	240	262
General Services					
Number of Purchase Orders Issued	301	277	334	331	322
Police					
Physical Arrests	641	695	987	1,030	1,164
Parking Violations	14,421	13,321	13,975	12,863	11,784
Traffic Violations	4,747	4,633	5,400	4,634	4,757
DUI Arrests	62	48	58	60	51
Library					
Number of Library Visits	-	-	-	-	-
Annual Circulation	-	-	-	-	-
Number of Library Card holders	-	-	-	-	-
Circulated e-audiobooks	2,414	5,867	7,761	10,006	8,844
Other Public Works					
Street Resurfacing/Overlay/Reconstruction (miles)	10.0	1.8	8.0	10.0	2.6
ADA Compliance: Curb Ramps	19	23	11	30	68
Traffic Circles	-	1	1	1	1
Street Poles	1,611	1,609	1,609	1,609	1,762
Planning and Development Department					
Building & Safety Inspections Performed	12,764	11,652	8,655	14,722	13,918
Redevelopment: Number of active projects	-	-	-	-	-

Source: Town of Los Gatos, Finance Department

Continued

Town of Los Gatos
Operating Indicators
Last Ten Fiscal Years

FUNCTION/PROGRAM

	Fiscal Year				
	2018/19	2019/20	2020/21	2021/22	2022/23
General government					
Building Permits Issued					
Residential Permits Issued	814	898	1,128	1,144	1,118
Residential Permits Value	80,030,846	47,961,529	111,242,724	132,784,439	73,432,645
Commercial Permits Issued	122	92	68	117	84
Commercial Permits Value	13,295,999	12,389,688	37,285,259	23,442,964	19,422,918
Publicly Owned Permits Issued	-	-	-	-	-
Publicly Owned Permits Value	-	-	-	-	-
Residential Parking Permits					
Number of Special Event Permits Issued	78	-	-	-	- (1)
Number of Annual Permits Issued	1,395	1,400	1,568	1,958	1,827
City Clerk					
Number of Council Resolutions Passed	59	57	50	64	71
Number of Ordinances Passed	11	24	9	14	10
Number of Contracts Passed	245	242	205	296	275
General Services					
Number of Purchase Orders Issued	343	359	376	306	296
Police					
Physical Arrests	1,138	616	360	504	522
Parking Violations	6,817	4,023	1,584	4,678	8,569
Traffic Violations	2,877	1,225	764	1,245	1,427
DUI Arrests	70	64	23	49	42
Library					
Number of Library Visits	-	-	-	150,198	206,874 (3)
Annual Circulation	-	-	-	432,707	397,517 (3)
Number of Library Card holders	-	-	-	29,322	29,815 (3)
Circulated e-audiobooks	12,130	57,839	54,614	-	- (2)
Other Public Works					
Street Resurfacing/Overlay/Reconstruction (miles)	5.8	16.2	10.0	9.9	10.9
ADA Compliance: Curb Ramps	49	68	91	59	50
Traffic Circles	1	1	1	1	1
Street Poles	1,830	1,830	2,113	2,113	2,113
Planning and Development Department					
Building & Safety Inspections Performed	13,966	13,633	13,806	16,906	16,641
Redevelopment: Number of active projects	-	-	-	-	-

(1) The Town streamlined the special event application where multiple events require only one permit.

(2) Changed operating indicators to fully reflect Department's efficiency metrics starting FY 2021/22.

(3) New metrics being presented in FY 2021/22.

Town of Los Gatos
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Schedule 16

Function/Program	Fiscal Year									
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
Police										
Number of Stations	2	2	2	2	2	2	2	2	2	2
Number of Patrol Units	14	14	14	14	14	14	14	14	14	14
Parking Enforcement Vehicles	2	2	2	2	2	2	2	2	2	2
Other Public Works										
Streets (miles)	132	132	132	132	132	132	132	132	132	112 ⁽¹⁾
Streetlights	1,611	1,609	1,609	1,609	1,762	1,830	1,830	2,113	2,113	2,113
Traffic Signals	29	29	30	30	30	31	31	31	31	31
Parks and Recreation										
Number of Parks	12	12	12	12	12	N/A	N/A	N/A	N/A	N/A
Number of Community Centers	1	1	1	1	1	1	1	1	1	1
Number of Parks & Open Spaces	N/A	N/A	N/A	N/A	N/A	17	17	17	17	17
Parking										
Number of Parking Garages	1	1	1	1	1	1	1	1	1	1
Number of Parking Lots	22	22	22	22	22	22	22	22	22	22
Number of Off Street Parking Garage Spaces	1,126	1,126	1,126	1,126	1,126	N/A	N/A	N/A	N/A	N/A
Number of Downtown Off-Street Parking Spaces	N/A	N/A	N/A	N/A	N/A	1,269	1,269	1,269	1,269	1,269

(1) Based on Metropolitan Transportation Commission (MTC)
funded Pavement Technical Assistance Program
(P-TAP) inventory for year 2022.

Other Independent Auditor's Reports

DRAFT



Chavan and Associates, LLP
Certified Public Accountants

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Los Gatos (the "Town") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated November 27, 2023.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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



Chavan and Associates, LLP
Certified Public Accountants

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

Purpose of this Report

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

C & A LLP

Morgan Hill, California
November 27, 2023

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TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/11/2023

ITEM NO: 9

ADDENDUM

Item 9.

DATE: December 9, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Conclude Recommendation to the Town Council Regarding the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year

REMARKS:

Attachment 3 contains the Manager's responses to Commissioners' questions and comments. It is being transmitted with this Addendum.

Attachments Distributed with the Staff Report on December 8, 2023:

1. Commissioners Communications after the December 4th Special Meeting and before 11:00 a.m. on December 8, 2023
2. Redlined Draft FY 2022/23 Annual Comprehensive Financial Report

Attachment Distributed with this Addendum:

3. Town Manager's Responses to Commissioners' Questions and Comments

PREPARED BY: Gitta Ungvari
Finance Director

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

Introduction

The Town appreciates the thorough and thoughtful review by the Finance Commission as demonstrated in its submitted comments and questions. The Finance Commissioners' comments/questions and Town Manager (TM) responses are organized in the following categories:

- General comments;
- Suggestions for modifying the presentation and correcting typographical errors;
- Requests for additional information regarding Town Finances; and
- Additional detailed questions and comments.

Many of the comments pertained to the Letter of Transmittal and MD&A. Under GASB guidance, care should be taken to avoid duplication. Two principles may be helpful in this regard:

- Management should use the letter of transmittal to convey any relevant information that is judged too subjective to be included in MD&A (for example, the potential effect of known events) and
- Since authoritative standards limit the content of MD&A to certain specified items, management should use the letter of transmittal to convey other relevant information.

General comments:

Page 32,33: Actual expenditures ended the fiscal year at \$5.3 million below final budgeted expenditures. It is worth noting that ~\$3.4M of the \$5.3M of favorable variance is due to vacancies. This chronic variance (due to budget padding) should be somewhat smaller in the 2023-2024 budget with the addition of a modest vacancy factor of 4.6% which corresponds to ~\$1.7M (as described on page 36).

***TM Response:** Staff agrees that FY 2023/24 will show decreased budget savings.*

One overall general comment is we had a good year - our overall net position improved, revenues are up and while we underrun expenses the major driver (staffing) provides opportunity to improve services to the town. Along those lines I would suggest the opening paragraph on page 2 of the Transmittal Letter under Economic Conditions and Outlook could be modified to focus on the more significant drivers - ie property tax and sales tax which make up appr 62% of our revenue are both up. A total increase of 8.5% is not insignificant. Leading that discussion with TOT, and stating property tax "remain steady" (vs 7.5% increase) doesn't really reflect the overall picture? I know we don't want to get too comfortable with the current trend and what may occur in the future but downplaying good news doesn't really help us.

***TM Response:** The order the revenue presentation is updated in the Transmittal Letter.*

Along those lines - I had 3 big take aways.

- 1) Revenues were up 8.5% - and \$5M more than our Org Budget. The update revenue projection was within .3M of our final actual which means we got a pretty good handle on the changes mid year.
- 2). We under ran expenses by over \$5M (appr 10%) from our updated budget and \$2.5M from the original budget. In private business this might be perceived as a good thing but for the Town it may represent lost opportunity. This may be a good area to focus on how we can estimate our expenses more accurately, particularly at the mid-year point.
- 3). While revenue is up, expenses down - our pension liability grew substantially and given the underlining driver of market performance should be expected to impact our current year. From a overall summary perspective would you agree?

TM Response: *The savings was primary due to vacancies Town-wide. Staff estimates budget savings at mid-year and year end; however, the budget is not adjusted for salary savings. The FY 2023/24 Adopted Operating Budget and Five-Year Forecast include a 4.6% salary savings factor.*

The goal of this section is to provide objective and easily readable analysis of the government's financial activities based on current known facts, decisions, or conditions. The section needs to be simplified and the explanations made more. The explanations are complex and too detail.

TM Response: *Noted.*

While the draft is a good start, there is work to be done in the MD&A section to fully comply with GASB 34. This statement requires the MD&A to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. GASB 34's objective is to enhance the understandability and usefulness of the external financial reports of the Town to its citizens, Town Council, investors, and creditors. Additionally, accountability is the paramount objective of governmental financial reporting. Additionally, I have concerns with the Town Manager's Transmittal letter as noted below.

TM Response: *Noted.*

Management Discussion and Analysis - The goal of this section is to provide objective and easily readable analysis of the government's financial activities based on current known facts, decisions, or conditions. The section needs to be simplified and the explanations made more. The explanations are complex and too detail.

TM Response: *Noted.*

Suggestions for modifying the presentation and correcting typographical errors:

Commissioners provided corrections of typos and grammatical errors.

Transmittal Letter - Page 2 – there is a typo regarding percentage of general fund revenues – 4.9%

***TM Response:** All suggested edits and corrections of typos were incorporated. The percentage should read 44.9% and was corrected prior to the Commission's December 4th meeting.*

Footnote 11 – is the notation “for the year ended June 20, 2023, pension expense for each plan ...” correct? Should this say pension contribution?

***TM Response:** Corrected.*

MD&A - TOT revenues are not shown separately on Statement of Activities so the reader is unable to determine the amount. Breakout TOT as a separate line item since it is the majority of “Other taxes” to assist the reader.

***TM Response:** Transient Occupancy Tax is listed separately in the General Fund Schedule.*

Add descriptions for Required Supplementary Information section and Supplementary Information section. These are also part of the Financial Statements which need to be explained.

***TM Response:** Description added.*

MD&A - Total General Revenues of \$39.4m as shown on the Statement of Activities increased 10.3% or \$3.7m from FY 22, excluding the \$1.5m settlement for litigation. Total General Revenues including special items for FY 23 was \$40.9m which was 15% increase over prior year. This should be a highlight.

For the General Fund, excess revenues over expenditures resulted in a \$5,718,884 surplus vs prior year \$3,290,895 surplus, which represents a \$2,427,898 or 74% increase over prior year. This should be highlighted along with a brief explanation for this increase. What contributed to this?

***TM Response:** FY 2022/23 results have been added to highlights. The primary factors are summarized in the MD&A.*

Fund Financial Statements - Add descriptions for Required Supplementary Information section and Supplementary Information section. These are also part of the Financial Statements which need to be explained.

***TM Response:** Description added.*

Governmental Activities Revenue Discussion - Provide a subtotal for total Program revenues and total General Revenues on the Statement of Activities Schedule (page 24) for ease of understanding of the amount of revenue for each year shown.

Staff Response: *Implemented.*

Staff should consider including more graphs as a basis for explanation (less text) such as the ones provided by the Auditor.

TM Response: *Graphs added.*

Staff should consider showing only two years comparison (FY 23 and FY 22) since FY 21 is not presented in the financial statements.

TM Response: *Graphs added.*

Staff should highlight the good news story that revenues exceeded operating expenditures and there was an operating surplus for both FY 23 and FY 22.

TM Response: *Highlights added to FY 2022/23.*

Transmittal Letter - Page 2 – states the Town's economically sensitive TOT revenues remain near historic lows (?) and sales tax receipts are flattening. Please check this for accuracy. MD&A - FY 23 TOT increased 100% over the low point of \$1.1m in FY 21 and 12% over FY 22. Discuss the recovery in both % and \$ from the low point in FY 21 (pandemic) so the reader has a better understanding of the trend in TOT. The trend is inconsistent with the statement regarding TOT in the transmittal letter. Reference to FY 19 should be dropped since FY 19 results are not presented in any schedules. Confirm the trend in economically sensitive revenue items including Sales Tax, TOT tax and Property Taxes is accurate. FY 23 results are showing strong recovery and in total exceed FY 21 levels (low point) and FY 19 levels (pre-pandemic).

TM Response: *FY 2022/23 Transient Occupancy Tax (TOT) revenue collection increased by \$0.3 million compared to the level collected in FY 2021/22; however, FY 2022/23 inflows of \$2.2 million are still \$0.5 million lower than the FY 2018/19 level of TOT collection (pre-pandemic level). Actual TOT collection was \$120,357 below budget in FY 2022/23.*

While sales tax increased from the prior year, the actual sales tax collection was \$152,657 below the budgeted amount, and therefore it is considered flat.

Requests for additional information regarding Town Finances:

Transmittal Letter - Page 3 – The financial statements show the \$3.6m ARPA funds were transferred to the General Fund. What qualifying expenditures under the Act were reimbursed and for how much? How much remains of the \$7.2m ARPA grant?

MD&A - ARPA – technical question – what is the revenue recognition policy on ARPA Grant? Should revenue be recognized when a qualified expenditure has been made or when cash received? Also, how much of \$7.2m is still available?

Footnote 16 – Covid – please disclose in detail which funds the FY 23 ARPA revenue of \$3.6m was transferred to. Please also disclose for FY 22 ARPA revenue of \$3.4m which funds the money was transferred to.

TM Response: *The Town received \$7,229,744 from the American Rescue Plan Act (ARPA) grant. For FY 2020/21, \$200K of ARPA proceeds were recognized as revenue to reimburse the Town for qualifying expenditures under the provisions of the Act, including boosting economic recovery, providing rent forgiveness, and directing grants to non-profit and social welfare organizations. For FY 2021/22 and FY 2022/23, the Town recognized \$3.4 million and \$3.6 million respectively in ARPA revenues for qualifying public safety expenditures. The ARPA fund was fully expended and the remaining balance is \$0.00 as of June 30, 2023. See Note 19.*

Transmittal Letter - Page 3 – Regarding labor negotiations, please disclose the total increases approved as a %.

TM Response: *The three labor agreements called for one-time non-pensionable bonuses and a combined market adjustment and cost of living adjustment for the Police Officers Association (7.25%), Town Employees Association (8%), and Association of Federal, State, County, and Municipal Employees (7.5%) for FY 2022/23.*

For this same year, the unrepresented Confidential employees received a one-time non-pensionable bonus and a combined market and cost of living adjustment (COLA) of 8%. Temporary classifications received a market adjustment and COLA totaling 8%. The unrepresented Management employees received a 3% COLA and one-time non-pensionable bonus. Effective July 1 2023, Management employees (except for the Council appointed Town Manager and Town Attorney) received an additional 3% market rate adjustment effective April 2, 2023. This information is available to the Finance Commission and the public in the Adopted Operating Budget: <https://www.losqatosca.gov/DocumentCenter/View/36220/FY-2023-24-Operating-Budget?bidId=>

Footnote 1 – Basis of Accounting – consider adding a paragraph which discusses claims and judgments. Disclose how the Town accounts for material claims and judgments and associated legal and administrative costs when it is probable that the liability claim has been incurred and the amount of the loss can be reasonably estimated. Disclose where (which fund) the Town

records estimated loss liabilities, including a) known loss events expected to be presented as claims later, b) unknown loss events that are expected to be claims and c) expected future development on claims are ready reported.

TM Response: See Note 13- Risk Management.

Disclose how the assigned balances are assigned. Is this done by the Town Manager or by the Town Council. What is the basis for assigning ERAF Risk of \$689,608 in fund balance. Was all ERAF revenue recognized in FY 23, FY 22 and FY 21? Should it have been? If litigation is probable, then please discuss in the footnotes - litigation.

Footnote 10 – Please explain the addition and deletion accounting for ERAF Risk. Why is \$2,298,692 shown as an addition to fund balance? Was \$2,298,692 recorded as General Fund Revenue – Property Tax? (Please see ERAF Risk comment above). Discuss why the Town does not have an unassigned fund balance to fund unplanned expenditures. Historically the Town has used the Capital/Special Projects assigned fund balance to cover unplanned expenditures.

Discuss the ERAF set aside for potential settlement of lawsuit between the State and the School districts.

ERAF Risk – what is the basis of accounting for creating an assigned fund reserve in the General Fund for ERAF risk as opposed to a liability for claim or judgment? Does the risk not rise to the level of being probable or reasonably estimated?

TM Response: The disclosure of the fund balance assignment is described in Note 1. The ERAF Risk Reserve was assigned by Town Council Resolution. Additional detail was provided to the Finance Commission at its October 9, 2023 regular meeting regarding the actual ERAF collection and the reserve (Items 7 and 8).

Discuss why the Town does not have an unassigned fund balance to fund unplanned expenditures. Historically the Town has used the Capital/Special Projects assigned fund balance to cover unplanned expenditures.

TM Response: Per the Town Council General Fund Reserve Policy, upon closing the Fiscal Year the entire unassigned balance will be placed in the Capital Projects/Special Project Reserve.

Transmittal Letter - Page 3 – Please explain how a “successful” completion” of the labor negotiations “exacerbate” an “already existing imbalance between revenues and expenditures”? Does Staff believe there was an imbalance in FY 23 between revenues and expenditures? Is this a forward-looking or backward-looking statement?

TM Response: This statement acknowledges the trends in the Five-Year Forecast contained in the Adopted Operating Budget.

Transmittal Letter - Page 3 – How did the Town adjust and prepare for rising pension costs in FY 23? Please explain.

TM Response: *To address the escalation in pension costs, previous Councils have allocated additional discretionary pension payments totaling \$10.4 million. These additional discretionary payments will ultimately yield an approximate \$12.7 million in contribution savings. In addition to the management of the Town's pension obligations, prior Councils have worked to curb cost escalations in Other Post-Employment Benefits (OPEB). In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$22.6 million in OPEB assets from zero in 2009. In addition, the Town plans an additional \$690,000 annually toward mitigating pension costs.*

Transmittal Letter - Page 3 – Please clarify when the \$10.4m in discretionary pension funding occurred. This was not in FY 23.

TM Response: *Clarifying language was added. The Town has contributed \$4.7 million in additional discretionary payments in FY 2019/20 and \$5.6 million in FY 2020/21. This level of detail is not appropriate for the Transmittal Letter and the referenced prior actions mitigate the increasing costs related to unfunded pension liabilities.*

Transmittal Letter - Page 4 – There is a “caution” provided to readers that the actuary reports provided by CALPERS are “forward looking” information. What is the purpose of this “caution”?

TM Response: *The caution is warranted since there is uncertainty in the forward-looking information.*

Transmittal Letter - Page 4 – There is a statement “despite revenue constraints” – please explain constraints exist.

The mention of “revenue constraints” is confusing in that FY 23 General Fund revenues exceeded General Fund Expenditures and resulted in a \$5.7m surplus.

TM Response: *The Town's expenses are growing faster than its revenues.*

Transmittal Letter - Page 4 – increasing costs associated with unfunded federal and state mandates is cited as an issue. Can you give an example of unfunded federal and state mandates that increased costs?

For sake of clarity, provide an example of an unfunded federal or state mandate that is driving cost increases.

TM Response:

- *There are several bills that have added costs to capital projects, operations, maintenance, and fleet, including but not limited to:*

- Americans with Disabilities Act – This federal mandate requires the Town to improve Town-owned buildings, parks, sidewalks, and streets in conjunction with every capital project. In developing the Town's ADA Transition Plan, all Town-owned assets were evaluated for compliance. A recent example is a project to improve restrooms and the human resources offices at the Civic Center. This project necessitated replacement of the access ramp to the lower level of the building. The cost of the design and construction of the ramp added an estimated \$370,000 to the project.
- Municipal Regional Stormwater National Pollutant Discharge Elimination System (NPDES) Permit – This Permit addresses stormwater discharged to rivers and streams. The requirements are extensive and include water quality target goals, management of certain contaminants (such as Mercury and PCBs), reduction of trash in waterways, management of construction sites to prevent erosion, detection and elimination of illicit discharge, public information, outreach, and monitoring to document the reductions. The following are examples of the financial impacts: (1) in 2023, the Town funded and installed 17 trash capture devices in the storm drainage system and these must now be maintained by staff; (2) the Town is required to map the storm drainage system which is expected to cost almost \$300,000; and (3) the Town is required to identify and fund new stormwater treatment(s) systems for 1.8 acres of existing impervious areas by 2025 with construction to follow.
- Waste management – Senate Bill (SB) 1383 was signed by Governor Brown on September 19, 2016 to reduce organic waste disposed in landfills by 50% by 2020 and 75% by 2025 (2014 baseline), and to reach recovery of 20% edible food that would otherwise be disposed in landfills by 2025. To achieve these goals, SB 1383 requires action in the following areas: organics collection, ordinance development, education and outreach, contamination monitoring, procurement of organic materials, edible food recovery, and compliance reporting. While certain elements of the implementation are completed through the waste collection and hauling Joint Powers Authority, Town staff time is required to achieve compliance. Enforcement and penalties for non-compliance began on January 1, 2022 for jurisdictions.
- Fleet Electrification – California has passed Advanced Clean Fleet requirements that, starting January 1, 2024, require the Town to transition its 80+ vehicle fleet to electric vehicles. New vehicles purchased after this date must be electric. At current market conditions, the EVs will require a larger capital expense than gas powered or hybrid vehicles. In addition, the conversion is going to require the installation of extensive charging infrastructure at Civic Center, PPW Yard, and the Police Operations Building. It is estimated by Silicon Valley Clean Energy that the total cost of fleet ownership will increase 56% as a result of the change to electric. The Town currently has 1.5 FTE Mechanics, both of whom will need to re-trained to work on EVs.

- *Several bills and court decisions created unfunded mandates for the Police Department:*
 - *2015- Assembly Bill (AB) 953 - Racial Identity and Profiling Act*
 - *SB 1421 (2018) - Right to Know Act pertaining to records related to police misconduct and serious uses of force*
 - *AB 748 (2018) - Disclosure of written, video/body worn camera materials for law enforcement*
 - *SB 2 (2022) - Assessment process and decertification of law enforcement for Officer misconduct*
 - *SB 16 (2022) - Retention of internal affairs records requirements*
 - *New York v Bruins/SB 2 (2023) - Updated laws related to issuance of concealed weapons permits*

In schedule 14 are the staff numbers for 22/23 budget or actual? I assume the prior years are actual?

TM Response: *The Schedules show the budgeted number. Staff reports on actual vacancies to the Finance Commission quarterly with the Key Performance Indicators.*

Footnote 1 – Basis of Accounting – consider adding a paragraph which discusses claims and judgments. Disclose how the Town accounts for material claims and judgments and associated legal and administrative costs when it is probable that the liability claim has been incurred and the amount of the loss can be reasonably estimated. Disclose where (which fund) the Town records estimated loss liabilities, including a) known loss events expected to be presented as claims later, b) unknown loss events that are expected to be claims and c) expected future development on claims are ready reported.

TM Response: *See Note 13- Risk Management.*

MD&A - Can you provide more information on the \$1.6m litigation settlement. Perhaps this should also be addressed in a footnote 14 – litigation.
Staff should provide more information regarding the legal settlement of \$1,565,000. This could be done in the litigation footnote.

Footnote 14 – Litigation – discuss the litigation settlement of \$1,565,000 and that it was recorded in the Appropriated Reserve Fund.

TM Response: *Note 14 includes all outstanding liabilities as of June 30, 2023. The settlement was collected during FY 2022/23 and is not an outstanding liability.*

On January 16, 2018, the Town annexed a portion of Shannon Road from the County of Santa Clara. After annexation, the Town noticed that necessary repairs to the road had not been made. On March 3, 2022, the Town sued the County of Santa Clara to seek repairs or funding for road repairs. The Town also sued two County contractors, Graniterock Construction and Uretek. All parties settled. The County paid the Town \$1.5M, Graniterock Construction paid

\$50,000, and Uretek paid \$15,000. These funds are being used to make repairs to Shannon Road. This information was discussed at the March 7, 2023 Council meeting.

Appropriated Reserves Fund should disclose the amount of ARPA funds included in the \$7.3m net transfer and why the \$1.6m legal settlement was recorded into the Appropriated Reserves Fund and not the General Fund. Which fund paid the legal expenses?

TM Response: *There was no ARPA fund transfer to the Appropriated Reserve. The legal settlement is providing funding to the Shannon Road repair. Legal expenses were paid by the Town Attorney Department.*

Restricted cash - Should the cash received from the BMP Housing Program of \$3.7m be reported as restricted cash in the General Fund since it is restricted for BMP Housing program activities? Even better, why not have this reported in a separate fund like Traffic Impact Mitigation fees to increase transparency?

Footnote 2 – should the BMP funds be included in Restricted Cash and Investments?

A special revenue fund for BMP Housing Program In-Lieu fee should be established given the current balance (\$3.7m) and the fact that the funds are restricted for BMP Housing Program activities. Additionally, there are numerous Housing Element programs that are planned to be funded from the BMP fees as outlined in the adopted Housing Element.

TM Response: *Staff will research establishing ordinances and evaluate if a special revenue fund is warranted.*

Additional detailed questions and comments:

TM Response: *The redlined ACFR includes additional graphs, the removal of FY 2020/21 data, and summary presentations to address some of the Commissioners' comments. Many of the following questions require detailed year over year, normalized, and/or other analyses that are beyond the scope of the MD&A. The Town's Adopted Operating Budget contains information that is requested in some of these comments.*

Question: on page 26 last paragraph - the discussion on prior year one-time-pass through for fire safety doesn't specifically say how much it was (or I missed it). Would like to understand the \$5.2m difference between 22 to 23 in General Gov't expenses better.

MD&A - Please explain how net expenses over revenues impacted the \$15.1m increase in total net position. Wouldn't this decrease the total net position?

MD&A - FY 23 Pension expense of \$5,870,044 – please add FY22 pension expense of \$3,389,540 and FY 21 Pension expense of \$9,806,974 and explain the year over year changes for all 3 years which are material. Why the change?

MD&A - When comparing year over year Total Expenses of \$49,317,203 in FY 23 to \$52,719,798 in FY 22, one-time activities such as the fire safety grant (\$6.9m) in FY 22, the impact of pension

expense credit and OPEB credits (\$4.4m) in FY 22 and \$(2m) in FY 23 are materially impacting the analysis of the change. The total impact of known one-time activities should be disclosed and a "proforma" normalized Total Expense reported for each year to aid the reader in understanding the "normalized" year over year changes from FY 21, FY22 and FY23.

Confirm the trend in economically sensitive revenue items including Sales Tax, TOT tax and Property Taxes is accurate. FY 23 results are showing strong recovery and in total exceed FY 21 levels (low point) and FY 19 levels (pre-pandemic).

Question: on page 26 last paragraph - the discussion on prior year one-time-pass through for fire safety doesn't specifically say how much it was (or I missed it). Would like to understand the \$5.2m difference between 22 to 23 in General Gov't expenses better.

Overview of the Financial Statements - The first paragraph is confusing and needs to be simplified to discuss the mix of revenue by source – Program Revenues vs Total General Revenues and what revenues are included in program and general revenues. Total general revenues and special items and Program revenues are reported separately and should be discussed separately in their own section. Program Revenues are applied against Total Expenses to show the net expense for all governmental activities. Comparing the net expense allows the reader to understand whether general tax revenues are sufficient to cover the net expense for all governmental activities.

Overview of the Financial Statements - Program Revenues - Discuss material change in Capital Grants and Contributions from FY 21, to FY 22 and to FY 23, including the impact of ARPA Grants. The change from FY 22 to FY 23 was \$18,311,031 decrease and the change from FY 21 to FY 22 was \$21,379,861. Why did charges for services decrease from FY 22 but are up \$1m from FY 21.

Overview of the Financial Statements - General Revenues – Investment Earnings - Disclose the two components of investment earnings – interest income and the mark-to-market adjustment so the reader understands the year over year fluctuations.

Overview of the Financial Statements - General Revenues - Developer Fees - Provide an explanation for the change in developer fees for FY 21, FY 22, and FY 23. Please explain the revenue recognition policy since, I believe, it is tied to qualified expenditures and not to when cash is received. Explain the term "pass through developer contributions."

Overview of the Financial Statements - General Revenues – Property Tax - Disclose the dollar and percentage change for the components of property tax revenues. I believe total secured tax increased 9.2% from prior year, VLF increased 7.7% and ERAF decreased 3%.

Overview of the Financial Statements - I am unclear as to the \$.4m decrease in property transfer tax – what does this exactly mean? In FY 23 there was a positive impact on general property tax over the statutory 2% increase resulting from home sales. Is the comment that in FY 23 this was not as great as the prior year? Isn't it a component of general property tax collection?

Overview of the Financial Statements - Disclose how much assessed valuations for the Town increased FY 23, FY 22, and FY 21. You can reference the SCC Assessor's Annual Report. I believe for Los Gatos the net assessment roll for FY 23 increased 7.77%, FY 22 increased 4.33% and increased 7.7% for FY 21. The increase in assessed valuations has been a major driver of increasing property tax revenues.

Governmental Activities Expenses Discussion - In comparing the change in total expenses across FY 21, FY 22, and FY 23 there are several one-time charges (fire safety pass through grant \$6.9m, pensions expense and OPEB credit \$4.4m, etc.) that make this comparison extremely difficult. To provide a better user experience and more fair comparison, one-time credits and one-time pass-through grants need to be adjusted out, so the reader has a better understanding of how total expenses on a normalized basis have changed over time for all operating departments. The current format fails to provide that level of clarity. This section needs a different approach to explain the underlying trends in total expenses.

Major Governmental Fund Results - Add discussion of the excess of Revenues over expenditures and discuss year over year change from FY 21, FY 22, and FY 23. The reader needs to understand that for FY 22 and FY 23 there were surpluses.

Major Governmental Fund Results - The revenue and expense discussion should disclose all one-time major events (fire safety pass through grant (\$6.9m), pension and OPED credits (\$4.4m), mark to market adjustments (\$1.6m), pass through developer contributions (\$1.1m), expensing the affordable housing loan (\$1.2m), etc.) which impact the underlying trends and year over year comparisons for revenues and expenditures. The analysis should include both a discussion of actual results as well as results on a normalized "pro-forma" basis by removing known one-time events. Without this, the reader will not gain a sufficient understanding of the Town's underlying operating performance in FY 23, FY 22 and FY 21 let alone be able to judge whether the normalized revenues were sufficient to pay for normalized services for each year shown.

Major Governmental Fund Results - To provide more insight on expenditures for each category (public safety, general government, parks and public works, community development, library services) the analysis should clearly identify the increase in total expenditures from salary increases vs increases in benefit contributions. Both are important cost forces that need to be explained.

General Fund Budgetary Highlights - The analysis of budget to actual is entirely focused on comparing final budget to actual results. What is not discussed is the variance between original budget to actual results. An analysis which provides useful insights into the variance between original adopted budget and actuals as well as the final budget vs actuals will allow readers to assess the Town's ability to estimate and manage general resources throughout the year. For example, the original adopted budget expenditures totaled \$47,354,218. The analysis provides a list of most of the changes approved which resulted in a final budget \$50,204,894, a 6.1%

increase. Presumably, all of these were necessary to provide new services or maintain existing services. However, actual expenditures were \$44,890,847 – reflecting a “savings” of \$5,314,047 (10%) from the final budget and a “savings” from the adopted budget of \$2,463,381 (5%). If the Town needed to spend \$50,204,894 to deliver all services, why did the Town spend \$44,890,847? Are these true “savings” in the sense the Town has become more efficient and does not need to spend that amount of money to deliver the planned level of service levels OR was this a cut in service levels in that the Town did not deliver the planned level of services that had been approved? This is a very important question to be discussed since the change from the adopted budget is material and in several places in the ACFR there is the mention of an imbalance between revenues and expenditures which does not appear to square with the budgetary outcomes. This only confuses the reader. Additionally, the adopted budget called for a deficit of revenues over expenditures of \$1,816,881. During the year, the TC adopted revenue budget adjustments totaling \$4,734,887 and increased expenditures of \$2,850,676 which moved the deficit to a slight surplus. Was this the result of added information received, or the result of becoming less conservative in budgeting as the year progressed? I believe a re-write of this section is required so the reader can gain a better understanding of the budgetary process and is able to make a judgment on the Town’s ability to estimate and manage its general resources throughout the year. It is hard to understand how the Town can increase the total expenditure budget to \$50.2m during the year and then only incur \$44.9m when the majority of expenses are salary and benefits.

The discussion of general fund budgetary highlights needs to be rewritten to make it more easily understood and to discuss variances from the original adopted budget and the final budget. This section is critical in that it provides the reader the necessary information to assess the Town’s ability to estimate and manage general fund resources throughout the year. The magnitude of change from the adopted budget to actuals is material. For example, the original adopted budget planned for an ending GF Balance of \$19,493,386. The actual ending balance was \$29,528,304 or 52% greater. Why did this occur ? A partial explanation is during the year the Town Council approved additional expenditures of \$2,850,676 increasing the budget to \$50,204,894 presumably for additionally needed services. However, actual expenditures were \$44,890,847 or a total of \$5,314,047 (11%) less. This reduction in planned expenditures was a major component in increasing the general fund balance. But was this reduction a “savings” in the sense the Town was more productive or was it a “reduction in service levels” in that planned services were not delivered? This is not explained. A thoughtful analysis of budget vs actuals will address a subtle “theme” that seemingly weaves through the ACFR that there is some type of “imbalance between revenues and expenditures”. This is stated a few times in the ACFR in different areas. And yet the actual results do not support this conclusion.

Economic Factors and Next Year’s Budgets and Rates - There is a mention of a Five-Year Financial Forecast predicting operating shortfalls. There is no context about this forecast. I am not aware of any five-year forecast which reflects the actuals for FY 23 as its stepping off point. Additionally, it is stated a “strong return to pre-pandemic performance of the Town’s economically sensitive revenues” is required to provide current service levels. Is this accurate given the discussion above regarding expenditures and the fact that FY 23 property taxes, sales

taxes, and TOT taxes exceeded FY 19 (pre-pandemic) by 20%. These statements need to be fact checked.

The assumption of 3.6% growth in property tax collections is not supported by the SCC Tax Assessor's Office Annual Report FY 2023-2024 which reports a 7.72% growth in net assessment roll growth for Los Gatos for FY 24 and the SCC Finance Agency which has published a revenue estimate in September 2023 for FY 24 total property tax revenues increasing 6.7% over FY 23, which includes the impact of ERAF and VLF tax receipts. What is the basis for this 3.6% growth?

The Towns should disclose the projected increase in pension contributions over the next five years so the reader can understand the magnitude of these payments for both the miscellaneous and safety plans. Based on the latest analysis from Foster and Foster the combined annual contribution are projected to increase from \$7.6m in FY 23 to \$10m in FY 28 which is a 31.5% increase. Are any other discretionary payments planned given the increase in Total Governmental Fund Balances in FY 23 and FY 22?

The economic factors and next year's budget should be shortened and rewritten as well. Most importantly the section should provide up to date information regarding current facts as known. For example, SCC Assessor's Office has released the FY 2023 net assessment roll for Los Gatos which increased 7.72% from the prior year. In addition, the SCC Finance Agency has published revenue estimates for property taxes (including ERAF and VLF) which forecast a 6.7% growth over prior year. These would suggest that the Town's property taxes will be higher than the FY 24 budget which was built on a 3.6% growth. This is good news and should be disclosed.

Confirm the trend in economically sensitive revenue items including Sales Tax, TOT tax and Property Taxes is accurate. FY 23 results are showing strong recovery and in total exceed FY 21 levels (low point) and FY 19 levels (pre-pandemic).

Discuss more fully what actions were taken in FY 23 to address rising pension contributions (an element of pension expense) and increasing unfunded pension liabilities. Transmittal letter is confusing regarding actions taken in FY 23 vs prior periods.

There should also be a discussion of the future pension expense (or pension contributions) as a result of the increased unfunded pension liability. It is clear – pension contributions are materially increasing unless action is taken. With the GF balance ending over \$10m greater than what was originally planned, perhaps the Town should consider making additional ADPs like those made in FY 20 and FY 21.

Staff should discuss in a revenue comment and a separate expenditure comment for both the government wide financial activities analysis and for the general fund analysis, all one-time revenue and expense items that are materially impacting year over year comparisons. The objective is to present on a "pro-forma" basis normalized total revenues and normalized total expenditures so the reader can easily understand underlying operating revenue and

expenditure trends. The number of onetime events in just FY 22 is material. A partial list includes:

- Fire Safety pass through grant - \$6.9mm
- ARPA revenues - \$3.6m
- Pensions expense and OPEB credits - \$4.4m
- Mark to market adjustments – (\$1.6m)
- Expensing affordable housing loan - \$1.2m
- Pass through developer contributions - \$1.1m
- Total impact on all salary adjustments - ?



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 12/11/2023

ITEM NO: 9

DESK ITEM

Item 9.

DATE: December 11, 2023
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Conclude Recommendation to the Town Council Regarding the Draft Annual Comprehensive Financial Report (ACFR) for the Preceding Fiscal Year

REMARKS:

Additional questions and comments were submitted by the Vice Chair after the distribution of the staff report (see Attachment 4). Attachment 5 contains the Town Manager's responses to these additional questions and comments.

Attachment 6 includes the affected pages of the ACFR containing the additional clarifications and corrections based on the comments contained in Attachment 4. The additional changes are presented in blue. Staff will update the Table of Contents after the document is finalized.

Attachments Previously Distributed with the Staff Report and Addendum:

1. Commissioners Communications after the December 4th Special Meeting and before 11:00 a.m. on December 8, 2023
2. Redlined Draft FY 2022/23 Annual Comprehensive Financial Report
3. Town Manager's Responses to Commissioners' Questions and Comments

Attachment Distributed with this Desk Item:

4. Commissioners Communications between 11:00 a.m. on December 8, 2023 and before 11:00 a.m. on December 11, 2023
5. Town Manager's Responses to Commissioners' Additional Questions and Comments
6. Relevant Pages of the Draft FY 2022/23 Annual Comprehensive Financial Report
Depicting Additional Modifications

PREPARED BY: Gitta Ungvari
Finance Director

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

From: [Phil Koen](#)
To: [Gitta Ungvari](#); [Wendy Wood](#)
Cc: [Laurel Prevetti](#)
Subject: FC - Agenda item #9
Date: Saturday, December 9, 2023 7:24:05 AM

[EXTERNAL SENDER]

Gitta,

Looks like significant progress on the MD&A. After reviewing the markup, there are a number of points perhaps you could consider (all references are to the ACFR page numbers):

1. Page 29 - please provide the detail that explains the \$18.3m year over year decline in capital grants and contributions
2. Page 31 - please add a sentence or two which would compare adjusted FY 23 vs adjusted FY 22 Total expenses as reported in the Statement of Activities removing the impact of the known one time events - \$6.9m fire safety grant in FY 22, pension expense for both years (FY 23 \$5.8m vs FY 22 \$3.3m), OPEB expense for both years (FY 23 \$1m vs FY 22 \$.5m), and \$1.2m BMP loan expense in FY 22. After these adjustments Adjusted Total Expense increased in FY 23. Let's make sure the reader understands the underlying trend. This can be done in a few sentences.
3. Page 35 - add total column
4. Page 37 - add total column
5. Page 38- please add the original adopted revenue budget to the graph and a Total column
6. Page 39 - please add the original adopted expenses budget to the graph and a Total Column.
7. Page 41 - please drop the reference to an out dated 5 Year Financial Forecast. We don't know the 5 year outlook until a new plan is adopted leveraging off FY 23 actual. The last 5 Year Forecast has FY 24 Property Tax revenues the same as FY 23 actual when we know a reasonable forecast is for 6.5% increase year over year.
8. Page 81 - Footnote 10 - please explain the rational for establishing an assigned ERAF fund reserve if there is no risk of future litigation as disclosed in Footnote 14? If this is a real liability, why isn't it recorded as a liability vs an assigned fund reserve?

Overall, very solid progress. Thank you for the effort.

Will the auditor attend the up coming meeting on Monday? It might be helpful just in case there are audited disclosure issues that might come up.

Thanks.

Phil

Town Manager Responses to Finance Commissioners' Additional Comments and Questions

Item 9.

The Town appreciates the thorough and thoughtful review by the Finance Commission as demonstrated in its submitted comments and questions. Staff received additional questions and comments between 11:00 a.m. on December 8, 2023 and before 11:00 a.m. on December 11, 2023.

Below are Town Manager (TM) responses for the additional comments and questions.

Page 29 - please provide the detail that explains the \$18.3m year over year decline in capital grants and contributions.

TM Response: Additional details provided.

Page 31 - please add a sentence or two which would compare adjusted FY 23 vs adjusted FY 22 Total expenses as reported in the Statement of Activities removing the impact of the known one time events - \$6.9m fire safety grant in FY 22, pension expense for both years (FY 23 \$5.8m vs FY 22 \$3.3m), OPEB expense for both years (FY 23 \$1m vs FY 22 \$.5m), and \$1.2m BMP loan expense in FY 22. After these adjustments Adjusted Total Expense increased in FY 23. Let's make sure the reader understands the underlying trend. This can be done in a few sentences.

TM Response: Additional explanation added.

Page 35 - add total column

TM Response: Total budget column added.

Page 37 - add total column

TM Response: Total budget column added.

5. Page 38- please add the original adopted revenue budget to the graph and a Total column

TM Response: Total budget column and Original (Adopted) Budget numbers added.

Page 39 - please add the original adopted expenses budget to the graph and a Total Column.

TM Response: Total budget column and Original (Adopted) Budget numbers added.

Page 41 - please drop the reference to an out dated 5 Year Financial Forecast. We don't know the 5 year outlook until a new plan is adopted leveraging off FY 23 actual. The last 5 Year Forecast has FY 24 Property Tax revenues the same as FY 23 actual when we know a reasonable forecast is for 6.5% increase year over year.

Town Manager Responses to Finance Commissioners' Additional Comments and Questions

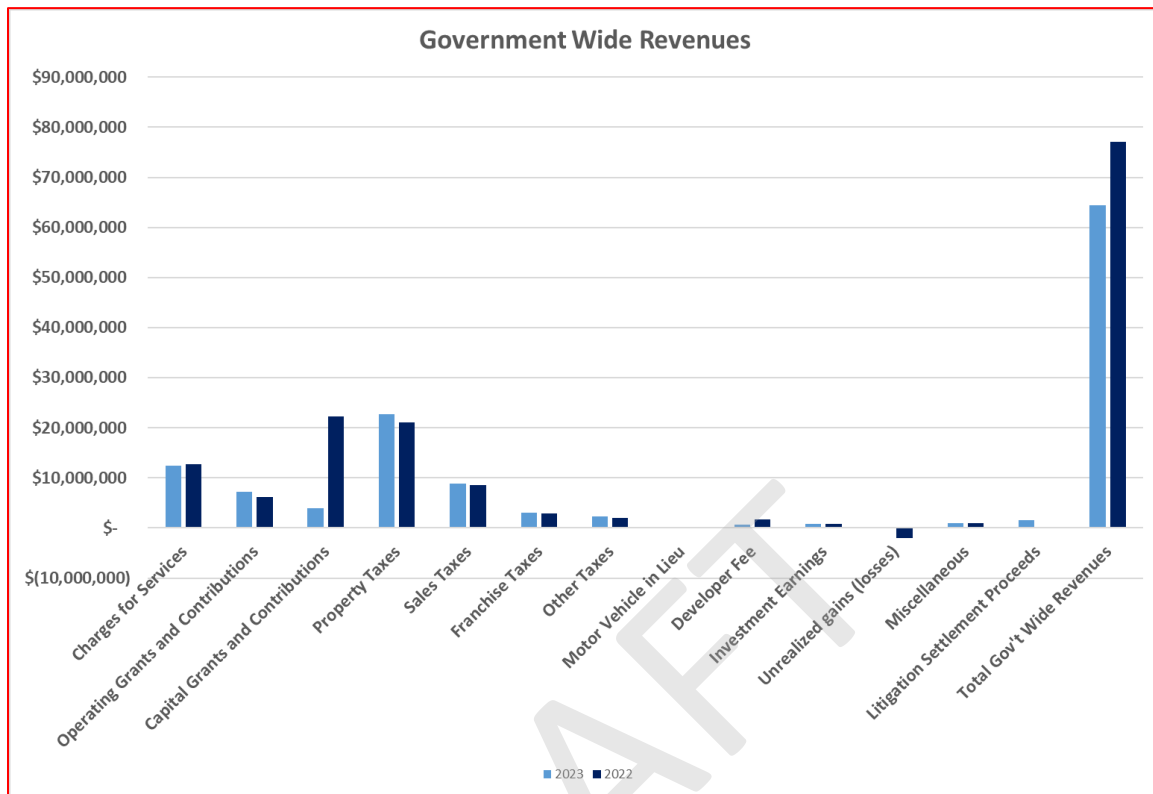
Item 9.

TM Response: *The updated forecast will be provided to the Finance Commission and the Town Council in February 2024. The reference to the forecast is removed.*

Page 81 - Footnote 10 - please explain the rational for establishing an assigned ERAF fund reserve if there is no risk of future litigation as disclosed in Footnote 14? If this is a real liability, why isn't it recorded as a liability vs an assigned fund reserve?

TM Response: *Reserves are established by the Town Council General Fund Reserve Policy and Council Resolutions. Providing details to only one Reserve would not be consistent. ERAF is not a liability from a financial perspective, but a risk that Santa Clara County has communicated to all its municipalities.*

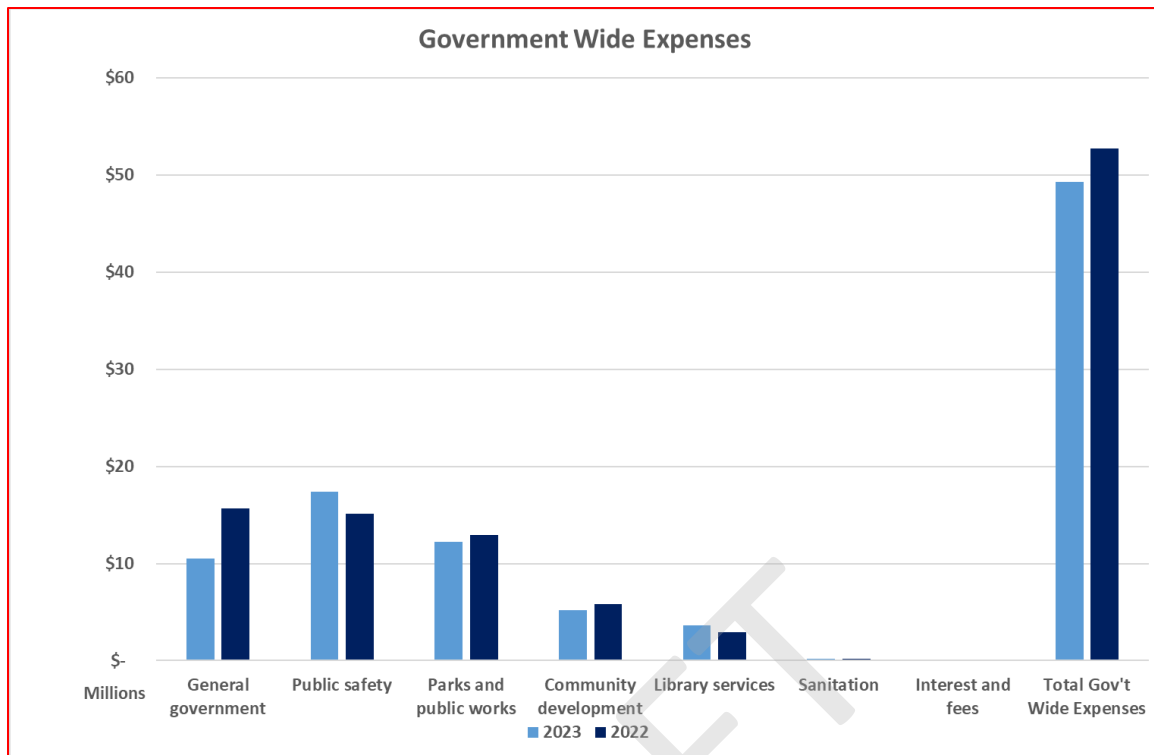
Governmental Activities Revenue Discussion



The Statement of Activities shown above details how the \$64.4 million in Governmental Activities revenues and contributions were derived. ~~As categorized in the Statement of Activities as program revenues,~~ Approximately \$12.4 million or 19.2% of the revenues were recorded from fees paid by residents/businesses who directly benefited from the **respective** program or service. Another \$11.1 million or 17.2% of the revenues were sourced from operating/capital grants and contributions. Significant grants and contributions include \$3.6 million in recognized ARPA, \$0.8 million gas tax, \$0.7 million in Road Maintenance and Repair Account from the State proceeds, and \$0.5 million Prop 172 Public Safety allocations. The Town has received a \$1.6 million settlement from Santa Clara County and responsible contractors related to the Shannon Road litigation. The remaining \$39.4 million or 61.2% represents general revenues of the Town, including taxes, intergovernmental revenues, and other miscellaneous revenues.

Program revenues decreased by approximately \$17.7 million from the prior year. This is largely due to a \$18.3 million decrease in capital grants and contributions, \$0.4 million decreases from charges for services, and \$1.0 million revenue increases in operating grants and contributions. **FY 2021/22 capital grants and contributions include the donated \$12.2 million historic Los Gatos Theatre, and one-time \$6.9 million State pass-through wildfire grant contributions.**

The Town's General Revenues related to Governmental Activities increased by approximately \$3.7 million from the prior year. The increase is attributable to a combination of approximately



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

Total expenses of \$49.3 million as reported in the Statement of Activities decreased by \$3.4 million from \$52.7 million the prior year. The decrease was primarily driven by the fact that prior year General Government expenses included a \$6.9 million one-time pass-through fire safety grant payment. In addition, other factors included Pension and OPEB expense credits of \$2.0 million calculated under accounting standards and allocated to FY 2022/23 compared to a \$4.4 million credit for the prior fiscal year. The calculated pension and OPEB expense credits of \$2.0 million was applied across all operating Departments. ~~Regardless of these specific items, Government expenses are increasing. -as follows:~~

~~○ Public Safety - \$1.9 million~~

Appropriated Reserves Fund capital projects fund balances increased \$7.5 million from the prior year, reflecting increased capital activity during the fiscal year. The \$1.4 million of general government and capital outlay expenditures above operating revenues was offset by \$8.9 million from other financing sources, including \$1.6 million in settlement, and \$7.3 million net transfers.

Proprietary Funds

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

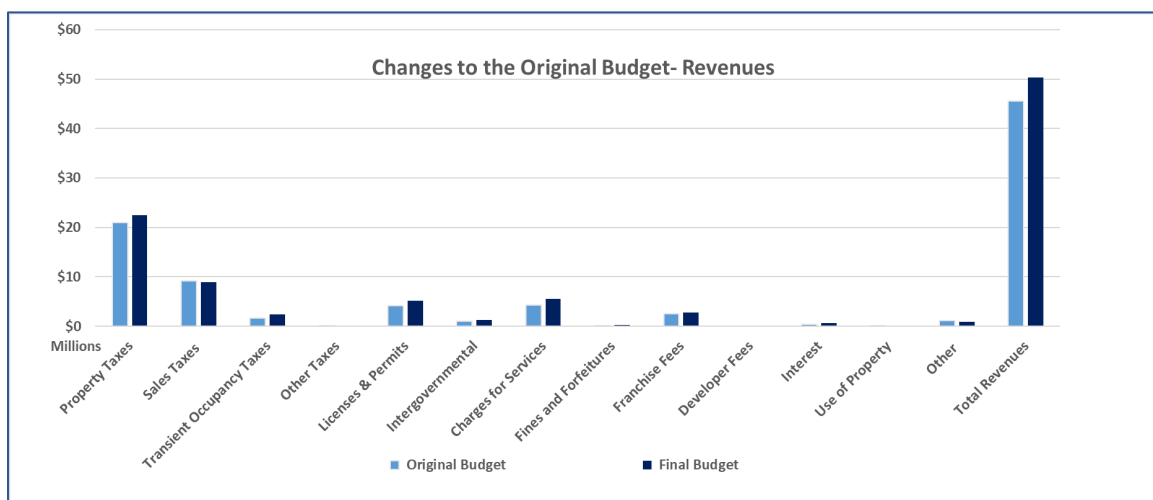
Total net position in the Internal Service Funds decreased by \$1.7 million, a combined effect of GASB 96 expense increase adjustment of \$0.2 million, a \$0.2 million increase in equipment replacement net position, a \$1.7 million decrease in FY 2022/23 due to excess expenses over revenues for workers' compensation, information technology, and general liability costs including administration, insurance premiums, and claims expense.

GENERAL FUND BUDGETARY HIGHLIGHTS

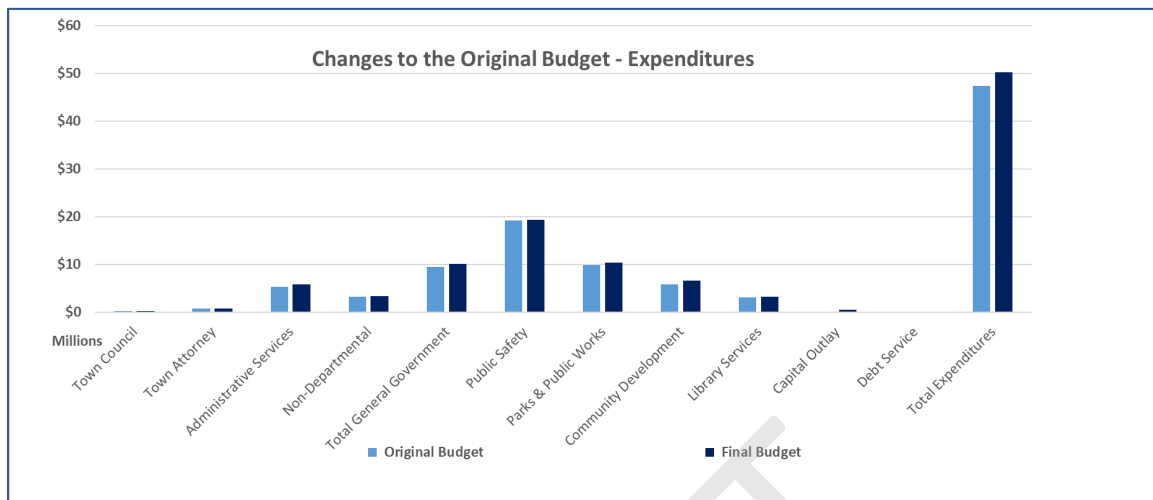
Changes to the Original Budget

Comparing the FY 2022/23 original budget (i.e., the Adopted Budget) General Fund revenues of \$45,537,337 to the final adjusted budget of \$50,272,274 indicates a net increase of approximately \$4.7 million. Additions to the original revenue budget included adjustments approved by Town Council throughout the fiscal year.

Original Budget General Fund (GF) Revenues	Misc. Adjustments & Mid-Year Adjustments	Final Budget GF Revenues
\$45,537,337	\$4,734,937	\$50,272,274



Original Budget GF Expenditures	Misc. Adjustments & Mid-Year Adjustments	Final GF Expenditure Budget
\$47,354,218	\$2,850,676	\$50,204,894



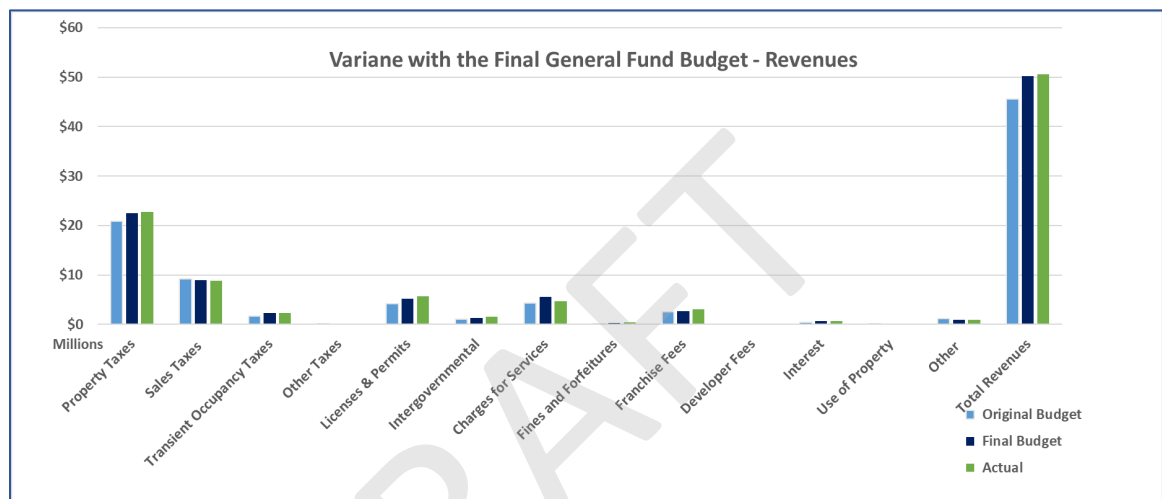
The increase in General Fund expense appropriations occurred primarily from the following sample of budget adjustments made during the fiscal year.

- \$0.9 million increase expenditure related to legal expenses, recruitment services, traffic signalization, special studies, retire medical and other miscellaneous services town wide;
- \$0.7 million expenditure increase for development related pass through activities;
- \$0.4 million for the Bersano Lane affordable unit repurchase and preparation of resell;
- \$0.3 million expenditure increase for Community Grants to recognize Council authorized General Fund Council Priorities – Economic Recovery reserve spending in the FY 2022/23;
- \$0.3 million expenditure increase for redepositing the first affordable loan payment to the Below Market Housing Deposit account; and
- ~~\$0.2 million expenditure increase to cover the cost for special studies related to Diversity, Equity, and Inclusion (DEI) prior year carry forward services; General Plan update Environment Impact Report; and the Housing Element related consultant work;~~
- ~~\$0.1 million expenditure increase to recognize increased cost related the retiree medical services due to additional recent retirements;~~
- ~~\$0.2 million temporary salary reimbursement from capital projects;~~
- ~~\$0.2 million for PG&E loan principal payment;~~
- ~~\$0.21 million to recognize the proceeds and authorize expenditures spend for Library operating grants.;~~
- ~~\$0.1 million increase for additional legal expenses;~~
- ~~\$64K expenditure increase for executive recruitment services;~~
- ~~\$53K expenditure increase for additional traffic signalization expenditures;~~
- ~~\$50K to recognize and spend the additional support from the Police Foundation;~~
- ~~\$32K expenditure increase for third party business license processing services;~~
- ~~\$37K for landscape maintenance; and~~
- ~~\$10K expenditure budget expense for park benches.~~

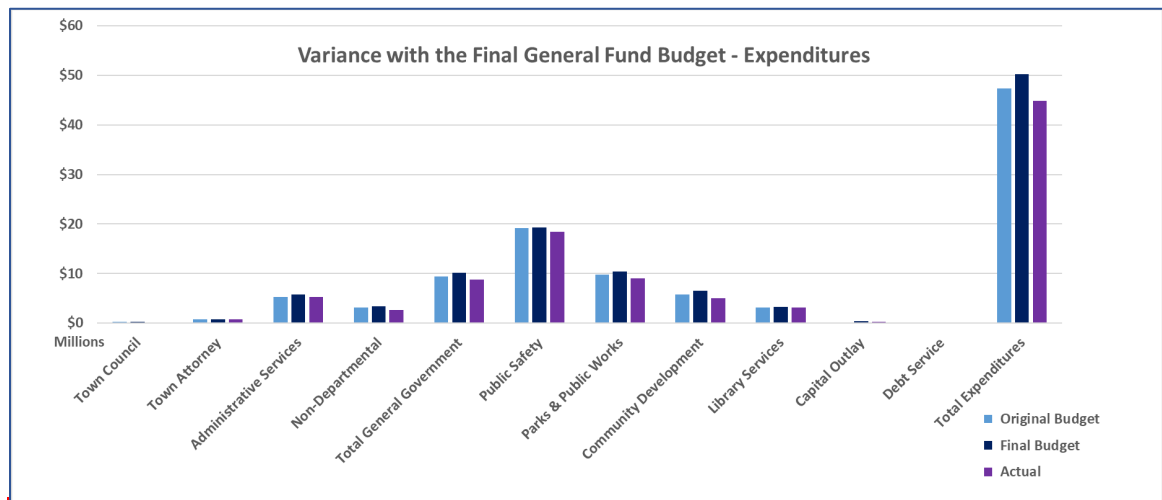
Variance with the Final General Fund Budget

The General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual (GAAP) for Fiscal Year Ended June 30, 2023 reports an approximate overall favorable variance with the final budget of approximately \$5.7 million. This favorable variance was created largely by the net effect of the following factors:

- Actual revenues ended the fiscal year at \$0.3 million above final budgeted revenues.



- ~~The \$0.3 million total variance represents a combined effect:~~
 - ~~\$0.5 million favorable variance in license and permit revenues;~~
 - ~~\$0.4 million favorable variance in franchise fees;~~
 - ~~\$0.3 million favorable variance in intergovernmental revenues;~~
 - ~~\$0.3 million favorable variance in property tax;~~
 - ~~\$0.2 million favorable variance in fines and forfeitures;~~
 - ~~\$7.5K unfavorable difference in use of property and other revenues;~~
 - ~~\$64K unfavorable variance in interest;~~
 - ~~\$0.1 million unfavorable variance in TOT;~~
 - ~~\$0.2 million unfavorable variance in sales tax;~~
 - ~~\$0.9 million unfavorable variance in charges for services.~~
- Actual expenditures ended the fiscal year at \$5.3 million below final budgeted expenditures. Significant factors affecting actual expenditures include: \$2.7 million savings in salaries and benefits in limited term vacancies throughout the organization (\$1.4 million in salaries, \$0.6 million in pension benefits, and \$0.7 million in other benefits), \$1.4 million variance due to the timing of development and below market housing related pass-through activities, and \$1.2 million operational savings Town-wide.



- ~~Public safety expenditures had a favorable variance of approximately \$0.8 million. \$0.7 million in savings is reflective of limited term vacancies in Police Captain, Police Officers, Dispatchers, Police Record Specialist, Senior Parking Control Officer, and Police Records and Communication Manager positions, savings of \$79K in miscellaneous operating savings, and \$74K salary-related internal service charges savings.~~
- ~~Community Development expenditures reflected a \$1.5 million favorable variance. \$1.1 million of the variance is related pass through activities supported with developer deposits in the Below Market Program, development review; building inspection, and special studies activities. Corresponding pass through revenues were lower as demonstrated above. Not counting the pass through activities related savings, Community Development operating expenditures include \$0.5 million combined savings on vacancies and miscellaneous operating expenditures. Associate Planner and Permit Counter Technician positions were partially unfilled during the fiscal year.~~
- ~~Administrative Services reflected a favorable balance of approximately \$0.5 million in savings in salary and benefits due to partial year vacancies in the Deputy Clerk, Emergency Manager, Special Event Coordinator, IT Technician, Assistant Town Manager, Accountant, HR Analyst, and Finance and Accounting Manager positions.~~
- ~~Parks and Public Works reflects a total favorable variance of approximately \$1.4 million largely due to vacancies savings due to partial year vacancies in the Parks and Public Works Director, Senior Civil Engineer, Town Engineer, Assistant Engineer, Lead Maintenance Worker positions totaling \$0.9 million. The FY 2022/23 budget included a one-time 1 FTE hire ahead Lead Maintenance Position that was not filled due to delayed retirement. The position is defunded in FY 2023/24. The Department realized additional positive variance reflecting actual~~

- ~~○ \$57K equipment for fire suppression and IT disaster recovery;~~
- ~~○ \$52K in building improvements Town-wide;~~
- ~~○ \$44K in parking lots improvements;~~
- ~~○ \$17K Recreation Building ADA Restroom Improvements; and~~
- ~~○ \$14K for park improvements.~~

Capital Assets
Town of Los Gatos
For the Year Ended June 30, 2023

	Governmental Activities
Infrastructure	\$ 67,077,784
Subscription Right of Use Assets	713,438
Buildings	28,846,606
Land	26,066,103
Equipment	2,462,694
Construction in Progress	7,513,148
	<u>\$ 132,679,773</u>

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

LONG-TERM DEBT

The Town generally incurs long-term debt to finance projects or purchase assets, which will have useful lives equal to or greater than the related debt. The Town long-term debt is related to the PG&E on-bill financing loan used for facility efficiency project updates, totaling \$1.2 million at 6/30/2023. The long-term debt in the Successor Agency Trust Fund is related to the 2002 COP and 2010 COP, totaling \$11.7 million. Additional information on the Town's Long-Term Debt is found in Note 7 of this Financial Report.

ECONOMIC FACTORS, AND NEXT YEAR'S BUDGETS, AND RATES

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

During the development and adoption of the Town's FY 2023/24 budget, the Town Council and management considered the following factors:

- The FY 2023/24 ~~Proposed~~ **Adopted** Budget endeavored to maintain essential public services while controlling operational costs in light of the Five-Year Financial Forecast. ~~which predicts operating shortfalls in subsequent fiscal years. Providing current service levels to the community in future fiscal years will require a strong return to pre-pandemic performance of~~