DATE: March 9, 2025

TO: Finance Commission

FROM: Chris Constantin, Town Manager

SUBJECT: Review and Input on a Comprehensive Framework and Workplan for the Town's Multi-Year Capital Improvement Program

RECOMMENDATION:

Receive a report on the workplan to develop a multi-year Capital Improvement Program that identifies current and future capital needs, determines the funding levels required to support those needs, and provides a comprehensive approach to capital planning.

Provide input on the workplan and elements of the Capital Improvement Program.

BACKGROUND:

The Town Council of Los Gatos annually adopts a Five-Year Capital Improvement Program (CIP) as part of the budget process. The adopted Fiscal Year (FY) 2025-26 – 2029-30 CIP identifies projects valued at $25,000 or more with a minimum useful life of five years. The current five-year CIP totals approximately $40.1 million over the planning horizon. Only the first year of the program is formally appropriated, with years two through five serving as planning estimates subject to available resources.

The CIP is organized into three primary program areas: Streets; Parks and Trails; and Public Facilities. As discussed later in this staff report, the Town will be adding overarching categories along with other elements to the CIP in the upcoming and future years to align with the Government Finance Officers Association (GFOA), best practices for multi-year capital planning.

For FY 2025-26, approximately 88 percent of total capital funding is allocated to the Streets Program, reflecting a Council priority to maintain core infrastructure. Of the Streets Program funding, 28% is allocated to stormwater projects from sources that are 100% restricted to stormwater related projects; and 21 percent (21%) is allocated to the Annual Street Repair and

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

Resurfacing Project and the Annual Curb Gutter Sidewalk Project with 68% of the funding for these annual street projects coming from sources that are restricted for use on roadways only. Of the 32% of funding for that comes to the Annual Street Repair and Resurfacing Project and the Annual Curb Gutter Sidewalk Project from GFAR, the sources are 2010 Measure B funds, 2016 Measure B funds, and an impact fee paid by the Town's waste hauling contractor. In other words, there is no funding in these projects that is from the general fund or that can be rededicated to non-roadway work.

The CIP further acknowledges that the Town continues to face challenges in securing reliable ongoing revenue for capital improvements, and that a significant portion of the five-year program relies on one-time funding sources such as the General Fund Appropriated Reserve (GFAR), grants, and other special funds.

Project planning for the CIP has historically been based on needs identified by staff without a transparent method for defining project priorities. Three years ago, staff identified the need to develop a more comprehensive approach to CIP planning and began to develop a comprehensive list of projects for streets and parks based on known needs and on planning documents that were adopted by Town Council (e.g., General Plan 2040, the Bicycle and Pedestrian Master Plan, Pavement Maintenance Program, Stormwater Needs Assessment, Facilities Condition Assessments, ADA Transition Plan, and Local Road Safety Plan). Staff also developed a consolidated list of building needs from preliminary condition assessments that were completed in 2022. These actions are a rudimentary start to what will become a robust asset management and capital planning process.

In 2014, the International Organization for Standardization (ISO) published its ISO 5500X series to provide guidance for developing and implementing asset management programs across various industries. The American Public Works Association and other related international organizations, such as the Institute of Public Works Engineering Australasia (IPWEA), have also published guidance specifically related to asset management for public infrastructure. Recent studies and guidance documents from both organizations date to the late 2010's or early 2020's. These best practices will inform the improvements to the CIP planning process, with the CIP based on best practices as recommended by the GFOA.

DISCUSSION:

GFOA Best Practices and Changes to the CIP

Table 2 is a summary of GFOA Best Practices, the Town's status in meeting the criteria, and estimated completion dates to implement the best practices.

Table 2. GFOA Best Practices for CIP			
CIP Framework	**Description**	**Current Status**	**Estimated Completion**
1. Defined Planning Horizon	Plan over a **multi-year period**, typically **at least 3 years**, ideally **5 to 25 years**, to support long-term infrastructure and asset management	Complete, the Town's CIP spans a five-year horizon with funding being budgeted only for year one of the CIP.	NA
2. Needs Identification	• **Inventory capital assets** (facilities, infrastructure, equipment, and software) and define their **life-cycle stages** • Use strategic frameworks, facility/master/regional plans, and demographic projections to pinpoint current and future service needs	In progress, Town will be updating categories.	FY29 CIP
3. Scope and Cost Estimation	• For each project, specify the **scope** and **complete cost** (including procurement, design, and construction) • Capture **life-cycle costs**: operating, maintenance, administration, renewal/replacement	In progress, currently we identify the scope and costs for the actual project. We still need to include lifecycle costs associations.	FY31CIP
4. Financial Impact Analysis	• Quantify **total capital and life-cycle costs**, including future operating and maintenance impacts on the annual budget	In progress, see comment above.	FY31

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CIP Framework	**Description**	**Current Status**	**Estimated Completion**
5. Prioritization Framework	• Implement priority **ordering** based on: - Health and safety risks - Service delivery or asset preservation - Financial return or revenue potential - Regulatory/legal requirements - Incorporate transparency in ranking decisions	In progress, this is already done informally but needs to be discussed and coordinated.	FY27
6. Multi-Year Financial Strategy	• Build a **comprehensive funding plan** spanning the CIP horizon, using: - Pay-as-you-go, debt, reserve funds, grants, dedicated taxes, etc. - Align financing methods with project timing and maintain overall fiscal health	Not started	FY31
7. Capital Policies & Governance	• Establish **capital planning policies** to define: - What qualifies as a capital project - Stakeholder roles and responsibilities - Debt vs. pay-go approaches - Reserve requirements - Monitoring, legal, and multi-year obligations	Not started	FY27
8. Asset Management Coordination	• Integrate CIP with **asset management**, including: - Condition assessment - Service reliability metrics - Defined renewal and replacement thresholds	In progress	FY29

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CIP Framework	**Description**	**Current Status**	**Estimated Completion**
9. Communications Strategy	• Share the plan via clear messaging to internal and external stakeholders—public meetings, online tools, reports—to ensure **transparency and engagement**	Not started	FY27
10. Monitoring & Annual Updates	• Continuously **monitor project delivery**, budgets, and timelines. • Revisit and **update the CIP annually** to reflect completed, delayed, or new priorities	Ongoing. System will be updated, revised, and made more robust as part of the overall CIP effort, including implementing project management software.	FY28

Work Plan for Developing and Updating the CIP

In alignment with best practices number two listed above, Table 3 is an updated Needs Identification structure that adds a new broader category to identify CIP projects but retains prior needs categories as a subcategory. In performing this work, staff is evaluating the procurement of project management software to improve project scoping and tracking of project budget and schedule.

Table 3. Categories for Need Identification of CIP Projects

Categories	Lifecyle	Perpetual	Repair / Replace / Rebuild	New
Definition	Planned, periodic investments made to maintain an asset in good working conditions throughout its expected useful life. These projects are based on predictable maintenance cycles and prevent premature asset failure. They do not significantly change the asset's function, capacity, or footprint.	Projects are ongoing, continuous capital investments that occur every year and do not have a defined start or end point. These projects are typically system-wide or programmatic in nature, addressing recurring needs to keep infrastructure operational, compliant, or up to standard.	These projects address the rehabilitation, repair, replacement, or complete reconstruction of existing assets that have deteriorated, reached the end of their useful life, or require significant upgrades. They restore existing capacity and function but do not typically expand the system.	New projects create brand new assets or expand the capacity, service area, or functionality of existing assets. These projects add to the City's overall capital inventory and often address growth, service enhancements, or new community priorities.
Example of Project Type	• Scheduled HVAC system component replacements in Town Hall • Interior /exterior repainting of facilities on a recurring schedule • Asphalt slurry seals or crack sealing on local streets • Replacement of playground surfacing as part of routine safety maintenance	• Citywide sidewalk maintenance and trip-hazard mitigation • Annual storm drain system cleaning and catch basin repair program • Ongoing IT network infrastructure updates and system hardening • Routine street sign replacement and traffic striping program	• Full roadway reconstruction of a deteriorated arterial street • Replacement of a failing sewer main • Roof replacement for an aging community center • Structural repair or rebuild of a damaged pedestrian bridge	• Construction of a new police station • Building a new neighborhood park • Installation of new traffic signals at previously uncontrolled intersections • Adding solar power infrastructure at municipal facilities
Subcategories	Streets; Parks and Trails; and Public Facilities and Software			

In alignment with best practice number eight in Table 2, the Parks and Public Works department is developing an asset management program for the Town of Los Gatos that will provide for more effective management of existing assets and associated costs, define preventive maintenance requirements versus capital needs, and provide cost projections for maintenance and capital work for existing assets. The Parks and Public Works Department has rearranged its staffing model to dedicate a staff member to asset management for approximately 60% of their time. A detailed implementation framework for developing the asset management program is in development.

The general framework for this work will be as follows:

1. Define asset classes to be managed;
2. Set service levels for each asset (based on usage, warranty periods, and regulatory standards);
3. Collect asset data (Type of asset, geolocation, construction year, current condition, and replacement cost);
4. Define the risk level associated with the failure of each asset class;
5. Document required preventive maintenance measures, including the expected service life and operational expectations (e.g., key performance indicators) for each asset or asset class. This includes determining what is mandatory vs non-mandatory (can be deferred with limited risk) and defining subcategories of maintenance:
    a. Corrective Maintenance. Repairs to restore function after a failure.
    b. Predictive Maintenance. Using data analysis to predict and prevent failures.
    c. Preventive Maintenance. Finding and fixing small issues before they're allowed to get worse.
    d. Deferred Maintenance. Postponing maintenance activities due to budget or resource constraints. Learn more in this guide.
    e. Condition-Based Maintenance. Performing maintenance based on the actual condition of equipment, not on a set schedule.
    f. Emergency Maintenance. Unplanned repairs in response to urgent issues.
6. Develop a capital improvement strategy for existing assets;
7. Develop cost projections for each asset; and
8. Operationalize an Asset Management Plan.

The Town has used a work order management system for public works since the early 2000's. Some asset classes are fully built out in that system, while others are either partially defined or not defined at all. Vehicles, benches, and storm drainage assets are currently the most complete.

Examples of asset classes that will be incorporated (Step 1 in the above outline of steps) in the asset management system are shown in Table 4. This list will continue to be built out by staff as the asset management system is developed and may not currently represent all of the asset classes owned by the Town.

Table 4. Preliminary List of Town of Los Gatos Asset Classes and Categories

Subcategory	Lifecyle	Perpetual	Repair / Replace / Rebuild
Buildings	HVAC	Structural Elements	Water Supply systems – backflow valves, piping, etc.
	Roofing		Sewer System pumps and pipes
	Interior Plumbing		Lighting
	On-Site Electric Generation		
	Electrical Systems		
Roads	Signage	Asphalt	Storm Drainage (Inlets, Piping, Treatment)
	Guardrails	Sidewalks / Handicap Ramps	Bridges and Culverts
	Retaining Walls	Parking Lots	
	Street Lights	Street Trees	
	Traffic Signals		
	Curb Markings		
	Striping and painting (centerlines, fog lines, bike lanes, etc.)		
Parks	Tables	Trees	Playground Equipment
	Benches	Pathways	
	Irrigation	Creek Trail	Landscaping
	Artificial Turf	Open Space Trails	
	Playground Safety Surfacing		
Fleet	Trucks and Maintenance Vehicles		
	Administrative Vehicles		
	Police Patrol Cars		
	Police Administrative Vehicles		
	Police Motorcycles and Bicycles		
	Generators		
	Small Equipment		
	Fuel Pumps		

Staff will develop a priority order for the build-out of assets in the system and expect the task of data collection for all assets to require three to four years. Consideration will be given to consulting services and/or technology solutions (e.g., artificial intelligence, vehicle mounted cameras, etc.) to accelerate this work. Town vehicles and generators are generally already in the asset management system and so will be prioritized in spring and summer 2026. Buildings, facilities, and associated assets will be the second set of data developed in the asset management system.

As the asset management system is built out, staff will begin using it to recommend projects for the CIP. Projects will be categorized based on priority, funding availability, and staff delivery capacity. Over time, this information will be used to present a consolidated five-year lifecycle funding sufficiency comparison, aligning estimated infrastructure needs, programmed capital expenditures, and projected funding capacity.

Enhancements to the existing framework may include:

1. Five-Year Funding Sufficiency Analysis
2. Formal Asset Lifecycle Integration
3. Capital Sustainability Metrics
4. Alignment with Reserve Policy

COORDINATION:

This staff report was coordinated with the Town Manager's office and the Administrative Services Department.