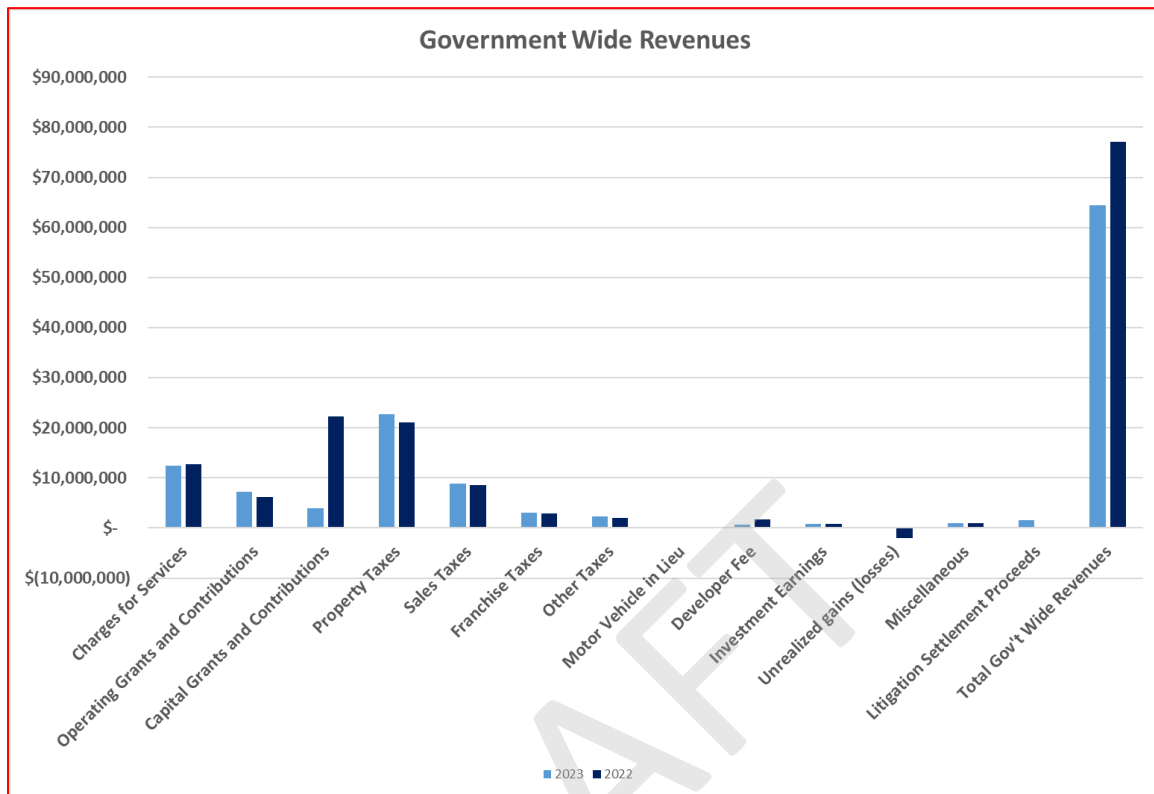


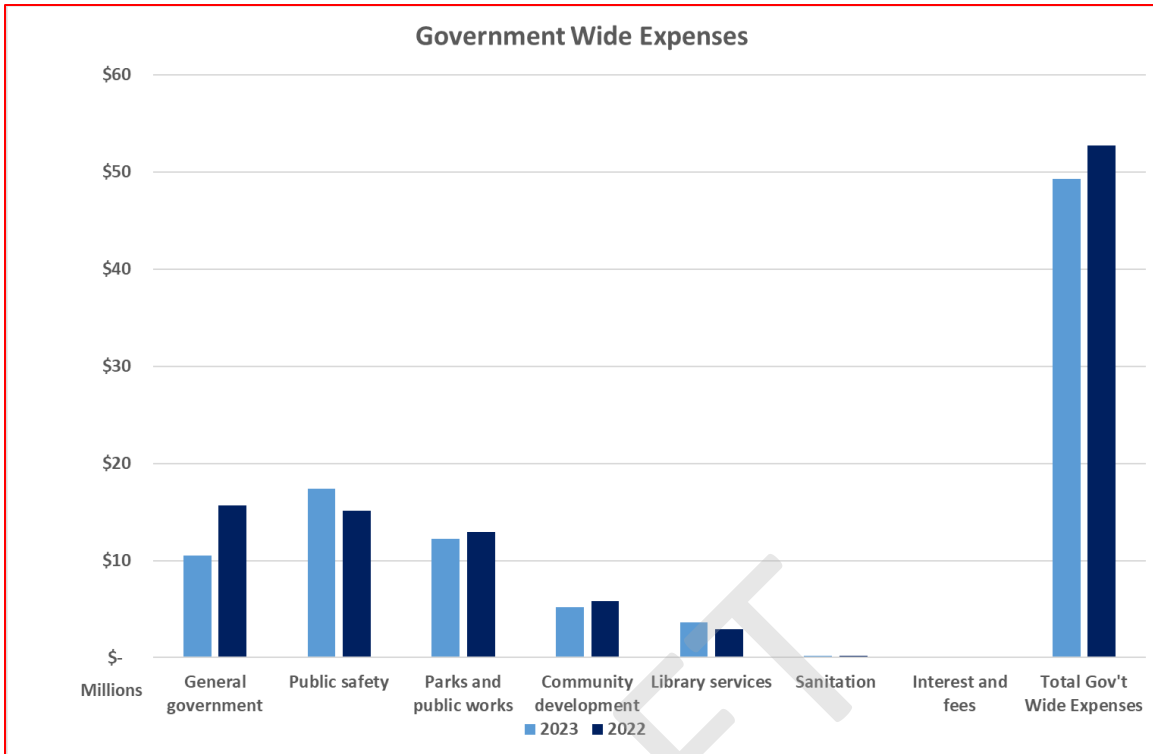
Governmental Activities Revenue Discussion



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.

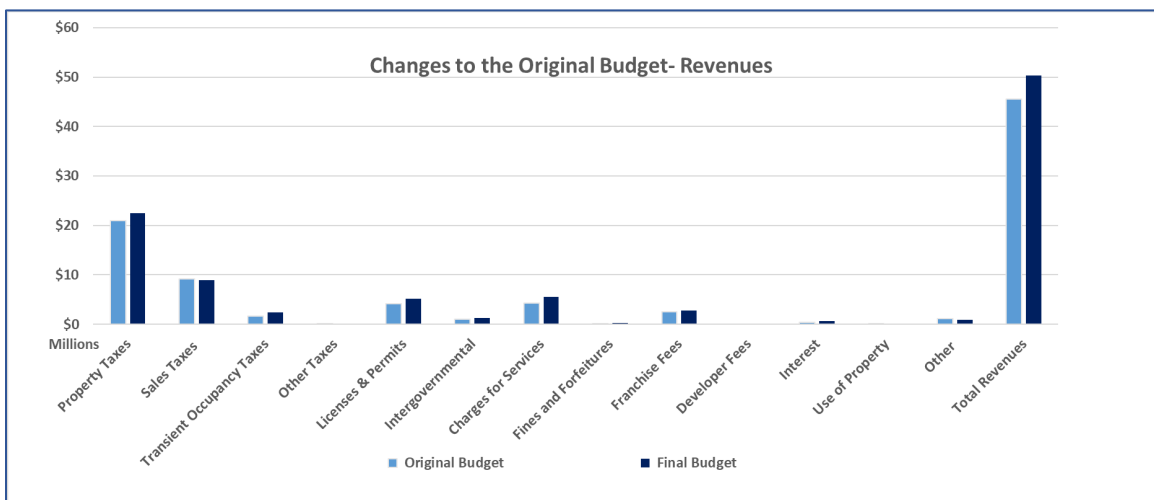
Total net position in the Internal Service Funds decreased by \$1.7 million, a combined effect of GASB 96 expense increase adjustment of \$0.2 million, a \$0.2 million increase in equipment replacement net position, a \$1.7 million decrease in FY 2022/23 due to excess expenses over revenues for workers’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

GENERAL FUND BUDGETARY HIGHLIGHTS

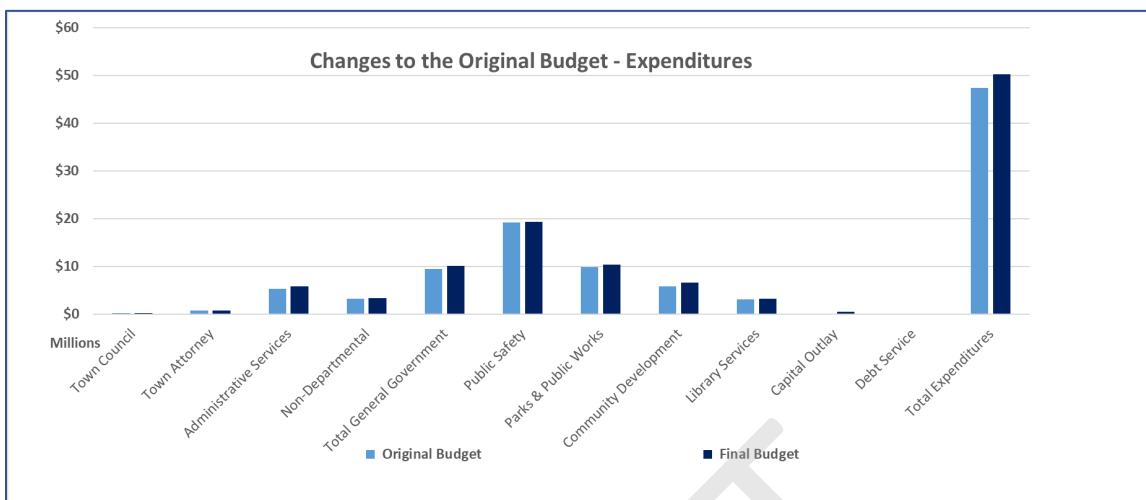
Changes to the Original Budget

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



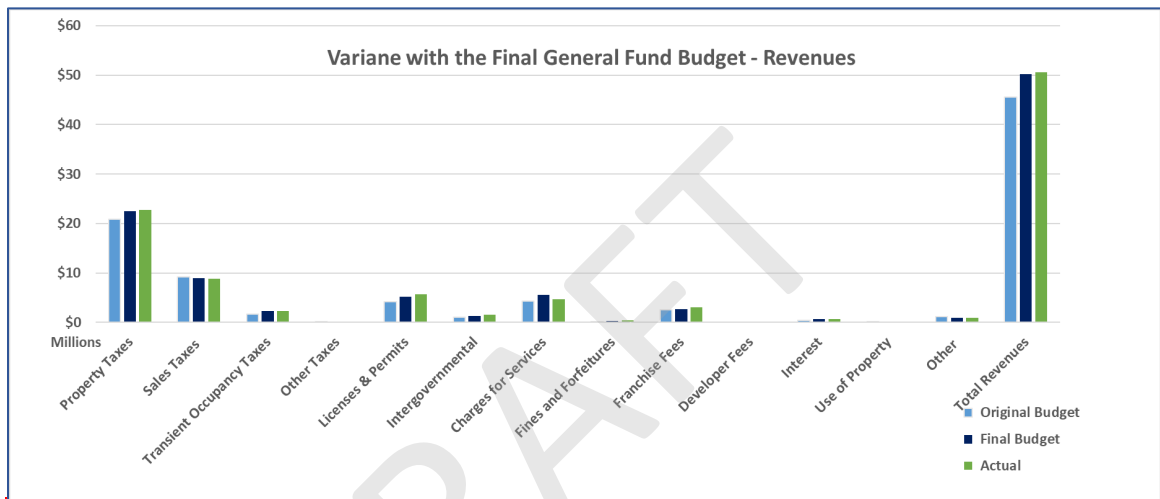
The increase in General Fund expense appropriations occurred primarily from the following sample of budget adjustments made during the fiscal year.

- \$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.~~

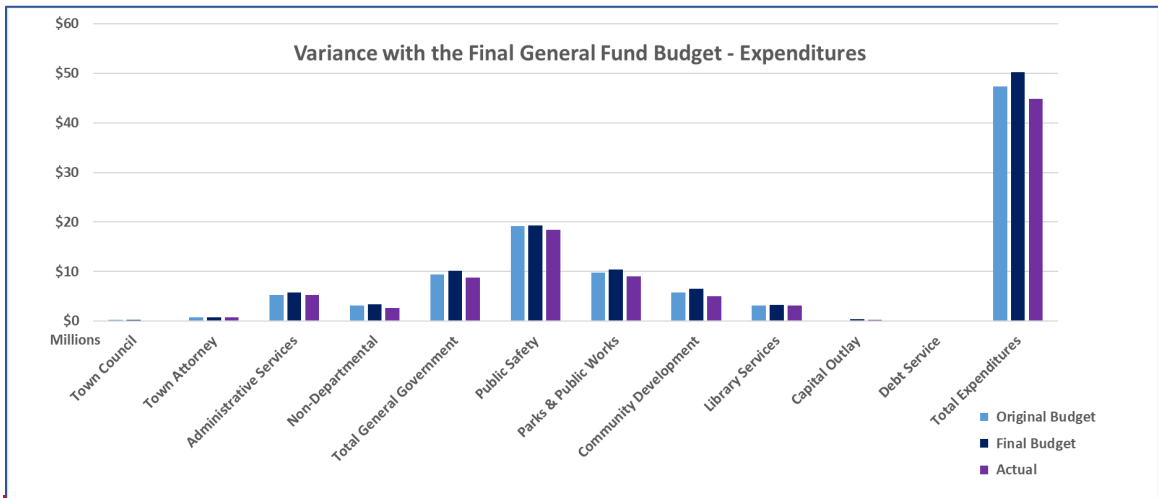
Variance with the Final General Fund Budget

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
	\$ 132,679,773

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~~