



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

MEETING DATE: 04/14/2025

ITEM NO: 3

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DATE: April 8, 2025  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: Review and Provide Recommendations on the Scopes of Services for a Fiscal Impact Analysis for Proposed and Planned Growth and Fiscal Condition Analysis and Five-Year Projection

**RECOMMENDATION:**

Staff recommends that the Finance Commission review and provide recommendations on the Scopes of Services for a Fiscal Impact Analysis for proposed and planned growth and Fiscal Condition Analysis and Five-Year Projection.

**DISCUSSION:**

The Finance Commission's adopted work plan includes reviewing the scope of the Fiscal Impact Analysis for proposed and planned growth. In addition, the Town is developing a scope for long-range financial forecasting services. Staff recommends that the Finance Commission review the scopes of both proposal requests and provide feedback. Based on the discussion and the feedback, staff might recommend combining the two scopes and request a proposal for individual services or providing services for both items.

*Draft Scope of Services for the Fiscal Impact Analysis for proposed Planned Growth:*

The Town is seeking a Consultant to prepare a comprehensive fiscal impact analysis, including scenario sensitivity analysis, with risks and opportunities, which will evaluate the potential fiscal impact of proposed and planned growth (Attachment 1).

**PREPARED BY:** Gitta Ungvari  
Finance Director

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

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Typical services would include, but are not limited to:

- Initial meeting with staff;
- Review and analysis of various taxes, fees, and other town revenues and expenditures of general government activities, public safety protection, community development, and other recurring Town expenditures;
- Analysis of revenues created by existing development patterns in the Town and impact of the current and future development patterns on the fiscal sustainability of the Town;
- Proposal scope, products (documents), and schedule;
- Attendance at public meetings to present proposals as required;
- Preparation of administrative draft documents;
- Preparation of draft documents for public review;
- Review of draft documents, including review by applicable committees, and attendance at public meetings as required;
- Preparation of final documents for adoption; and
- Recommendations for next steps.

*Draft Scope of Services for Fiscal Condition Analysis and Five-Year Projection:*

**Project Overview:** The Town (population ~33,400) seeks a qualified consultant to assess its current and future health fiscal health, develop a realistic five-year financial forecast, and identify recommendations for short, medium, and long-term response to attain fiscal sustainability. In this evaluation, the analysis should include but is not limited to, a focus on deferred infrastructure liabilities, pension and other post-employment benefit liabilities, personnel costs, reserves, expenditures, and revenue impacts. The consultant will follow industry best practices throughout the engagement.

**1. Fiscal Condition Analysis**

- **Financial Health Assessment:** Review the Town's recent financial history (e.g. last 5–10 years) and key **financial indicators** to evaluate current fiscal health. While our General Fund and Internal Service Funds are the primary focus, the assessment should include other funds that materially impact the Town's financial sustainability. Examine trends in revenues, expenditures, fund balances, and use of reserves. Use widely accepted indicators of municipal fiscal health where appropriate— such as, but not limited to liquidity ratios, debt burden, reserve levels, revenue diversification, and pension funding status – to provide a baseline analysis.
- **Identification of Major Fiscal Risks:** Identify and quantify the Town's major financial risks and liabilities. This includes calculating **deferred infrastructure maintenance** backlogs (unfunded repairs/upgrades to roads, facilities, etc.) and assessing their long-term budget impact. Analyze the Town's pension obligations and retiree health (OPEB) liabilities using actuarial reports, projecting future contribution requirements

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(recognizing that pension costs are projected to rise for almost all California local governments). Evaluate **personnel costs** (salaries, benefits, pensions) as a driver of expenditures, especially in the context of labor agreements and inflation. Highlight any structural imbalances or cost growth that outpaces revenue growth (e.g. identifying areas of structural deficit risk). Note any other significant obligations (e.g. debt service, etc.) that could affect the Town's long-term solvency.

- **Revenue and Expenditure Trends:** Evaluate all major revenue streams (property tax, sales tax, user fees, permits, state subventions, etc.) for their historical growth patterns, volatility, and any emerging trends. Identify any over-reliance on economically sensitive revenues and discuss vulnerabilities (for instance, if a large portion of the budget comes from sales tax or tourism-based taxes that could dip in a downturn). Analyze expenditure trends by department and category (personnel, operations, capital outlay, etc.), identifying areas of rapid growth or where costs consistently exceed inflation. Determine whether recurring expenditures are aligned with recurring revenues, diagnosing any structural gaps. Highlight opportunities for improvement – such as potential revenue enhancements (economic development, updated fee structures, grants) or cost containment measures (streamlining services, preventative maintenance to reduce long-term costs). The analysis should clearly identify looming problems (e.g. revenue sources at risk or deferred costs coming due) as well as any positive trends or fiscal strengths the Town can build upon. **Findings will be benchmarked** against relevant comparables or industry standards to put the Town's condition in context.

## 2. Five-Year Fiscal Projection

- **Multi-Scenario Forecast:** Develop a five-year financial projection for the Town's major funds (with an emphasis on the General Fund) under three scenarios:
  - **Best-Case:** An optimistic scenario with favorable conditions (e.g. robust economic growth, increasing revenues, and modest expenditure growth).
  - **Worst-Case:** A cautious scenario assuming fiscal stress (e.g. an economic downturn reducing revenues, higher cost inflation, or new unfunded mandates increasing expenses).
  - **Most Likely (Baseline):** A scenario reflecting the expected trend based on current policies and the economic outlook.

Clearly document the assumptions for each scenario (such as annual growth rates for each revenue source, staffing and salary projections, pension contribution rate changes, capital improvement plans, etc.). The forecast model should quantify the projected surplus or deficit each year under each scenario. In line with best practices, present a **range of outcomes** with these different scenarios to illustrate uncertainty as well as compare to the Town's current forecast. This will help the Town understand how sensitive its finances are to various factors.

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Include charts or tables that compare the scenarios (for example, fund balance over time in each case).

- **Assumption Analysis – Economic, Policy, and Operational Factors:** Analyze the key factors driving the forecast and how changes in those factors would affect the Town's finances:
  - **Economic Factors:** Consider local and regional economic projections (population growth, development trends, inflation, employment rates) and their impact on revenues (e.g. sales tax and property tax growth or decline) and expenses (e.g. labor costs, construction costs for capital projects). For the worst-case scenario, model a potential recession early in the five-year period (with revenue declines and heightened demand for certain services), and for the best-case, assume sustained economic expansion.
  - **Policy/Legislative Factors:** Incorporate any known or anticipated changes in policies that affect revenues or costs. This might include state legislation (or voter initiatives) altering revenue formulas or imposing new requirements on cities. For example, consider changes to California tax law, pension reform measures, mandates on service levels, or shifts in state funding. Also account for local policy decisions under consideration (such as new revenue measures or changes in service levels) that would impact the Town's finances.
  - **Operational Factors:** Reflect internal Town initiatives or events that will impact finances. This could include the opening of new facilities, significant one-time expenditures (equipment purchases, infrastructure projects), upcoming labor contract negotiations, or efficiency measures. Identify any cost drivers that the Town anticipates (e.g. rising health insurance premiums, needed technology upgrades) and ensure those are built into the baseline projection. Conversely, include any planned cost-saving initiatives or departmental reorganizations expected to yield savings.

The consultant should explain how each of these factors is handled in the forecast and may use **sensitivity analysis** to show the impact of variations (e.g. what if revenue grows 1% slower than expected, or pension investment returns underperform). All assumptions should be reasonable and based on evidence (historical data or external forecasts) to maintain credibility.

- **Incorporation of Potential Funding and External Conditions:** Identify and integrate potential new funding sources or mitigations into the forecast scenarios. For instance, if the Town is considering a tax measure or fee increase, model its financial impact in the appropriate scenario. Include expected grants or state/federal funding (for example, infrastructure grants or allocations from state legislation) and denote which are one-time versus recurring. Similarly, address the Town's strategy for tackling deferred

infrastructure liabilities within the forecast – e.g. does the best-case scenario assume new capital funding to reduce the maintenance backlog, and does the worst-case prolong the backlog? Consider **macroeconomic conditions** such as inflation and interest rates: inflation can affect both revenues (e.g. sales tax growth) and expenditures (contract costs), while interest rates influence the cost of debt and the Town's investment earnings. The forecast should also be stress-tested for extraordinary events (for example, natural disasters or public health emergencies) to the extent feasible, at least in narrative form, describing how reserves or emergency funds would be utilized. By examining these factors, the projection will illustrate not just a single expected outcome but the **financial resilience** of the Town under various circumstances.

- **Forecast Methodology and Transparency:** Utilize a robust forecasting approach that combines quantitative analysis with the Town's institutional knowledge. Techniques may include trend extrapolation, econometric projections for elastic revenues, and **scenario planning** tools. The consultant should clearly document the methodology and model structure. The resulting projection model (e.g. Excel or similar) will be provided to the Town, with notes explaining all assumptions so that Town staff can update it in the future. Emphasize transparency by providing a detailed list of assumptions and aligning the forecast with the Town's accounting structure (using the same fund and department categories as the budget). The methodology should adhere to GFOA's recommendations for long-term financial planning, ensuring the forecast is a useful tool for decision-making – for example, clearly stating assumptions and linking the forecast to the Town's financial policies (like reserve targets and maintaining structural balance). Periodically review draft projections with the Town's project team to validate assumptions against local insights before finalizing the numbers.

### 3. Stakeholder Engagement

- **Departmental Interviews and Data Gathering:** The consultant will conduct interviews with staff from all Town departments to gather insights and granular data. These interviews will solicit information on each department's budget pressures, service demands, and any planned initiatives or unmet needs. Departments can provide context on **deferred maintenance** issues, personnel needs, and revenue opportunities specific to their operations. Engaging department heads and key staff in this way will enrich the analysis – for example, identifying upcoming capital replacements or potential efficiency improvements that might not be evident from financial reports alone. (This approach aligns with GFOA best practices, which recommend leveraging the expertise of internal staff to inform financial forecasts.) The consultant should prepare a standard set of questions or a survey template to ensure consistency in data collection across departments, covering topics such as service level changes, infrastructure conditions, anticipated grants, and cost-saving ideas or concerns.

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- **Collaboration with Finance Team:** Work closely with the Town's Finance Department throughout the project. The finance staff will serve as liaisons for providing documents (budgets, audited financial statements, capital improvement plans, debt schedules, pension actuarial reports, etc.) and clarifying any existing projections or assumptions. Regular check-in meetings should be held to discuss preliminary findings and ensure all data is interpreted correctly. This collaboration helps align the consultant's work with the Town's budgeting practices and ensures that recent developments (e.g. mid-year budget adjustments or revenue shortfalls) are factored in. The finance team's institutional knowledge will also assist in reviewing forecast assumptions (for example, vetting revenue growth rates or planned staffing changes). The consultant may also coordinate with other key stakeholders as needed – such as the Town Manager's office for overall strategic direction or external advisors (e.g. auditors, financial advisors) for specialized insights.
- **Stakeholder Communication and Feedback:** Maintain open communication channels for stakeholders to provide input and feedback. After completing the departmental interviews and initial analysis, the consultant should debrief Town leadership on preliminary findings to verify accuracy and gain insights before report writing. This may involve presenting a draft outline or initial data trends to the Town Manager and finance director, ensuring there is agreement on the key issues and assumptions. The consultant should be receptive to feedback and ready to investigate any additional areas of concern raised by staff or officials. Engaging stakeholders at this stage helps build buy-in for the final recommendations and ensures that no critical local knowledge is overlooked. Finally, before finalizing the report, the consultant might hold a workshop with department heads or the finance committee to walk through the draft findings and ensure clarity. This iterative engagement process will result in a more robust and accepted final product.

#### 4. Deliverables

- **Comprehensive Report:** The consultant will produce a detailed report documenting all findings, analysis, and projections. The report will include:
  - **Executive Summary:** A concise overview of the Town's financial condition, key trends, and high-priority recommendations.
  - **Current and Future Fiscal Condition:** A detailed assessment of the Town's present financial health (fund balances, recent revenue/expenditure trends, and major liabilities such as pensions and deferred maintenance), supplemented by charts and comparative benchmarks.

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- **Five-Year Financial Forecast:** A presentation of the financial projections for each scenario (best-case, worst-case, baseline), including the assumptions used and year-by-year tables for revenues, expenditures, and fund balances. Visual aids (graphs, tables) will illustrate the differences between scenarios and highlight when fiscal targets (like reserve levels) might not be met.
- **Analysis of Results:** Discussion of what the forecasted outcomes mean for the Town's fiscal sustainability. Identify any years where deficits are projected, the drivers of those gaps, and the Town's capacity to manage them (e.g. use of reserves). This section will connect the forecast back to the risks identified in the fiscal analysis (showing how issues like pension costs or infrastructure needs influence the outlook).
- **Recommendations:** Specific actionable recommendations for Town policy or management. These may include steps to close projected budget gaps, strategies to fund or mitigate liabilities (such as setting aside reserves for pension or infrastructure costs), potential new revenue measures, and improvements to financial policies/procedures. Recommendations will reference supporting analysis and adhere to California legal constraints (e.g. Proposition 218 requirements for revenue measures).
- **Appendices:** Supporting materials, such as detailed financial model outputs, summaries of stakeholder input, a list of data sources and assumptions (economic indicators, growth rates, etc.), and any benchmarking data. The appendices provide transparency and allow Town officials to delve into technical details as needed.
- **Presentations to Town Council and Finance Committee:** The consultant will present the key findings and recommendations in at least two forums: a Town Council meeting (in public session) and a meeting of the Town's Finance Committee (or Budget/Audit Committee). The presentations will distill the report into a slide deck with clear visuals, highlighting trends, risks, and proposed solutions. The consultant will explain the assumptions behind the projections and provide context for the scenarios. They should be prepared to answer questions and discuss alternatives with officials. The goal is to facilitate understanding among policymakers and support informed decision-making. All presentation materials (PowerPoint slides, charts, etc.) will be provided to the Town for its use and records.
- **Financial Model and Dashboard Tools:** Provide the Town with the financial projection model and any analytical dashboards developed. The model (e.g. in Excel) should be user-friendly, with clearly documented assumptions and the ability for staff to update key inputs to run new scenarios. If an interactive visualization or dashboard is created to

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track fiscal indicators, that should also be delivered (for example, a tool to monitor fund balance, debt, and pension metrics over time). The consultant will conduct a brief training session for relevant Town staff on how to use and maintain these tools, ensuring the Town can continue to utilize the model for annual budget updates and long-term planning.

- **Adherence to Standards:** Ensure all work products conform to best practices. The analysis and reports will be prepared in accordance with GAAP and Government Finance Officers Association (GFOA) best practices. Financial terminology and classifications will align with California municipal reporting conventions (e.g. those used by the State Controller's Office). All assumptions and methodologies should be clearly explained to meet transparency expectations and facilitate external review.
- **Quality and Transparency:** The consultant is expected to deliver high-quality, unbiased analysis. Before finalizing deliverables, conduct internal quality reviews and review draft findings with Town management to verify accuracy. The final report and presentations should be error-checked, clearly written, and suitable for public release. All data sources and calculations must be documented (either in the report body or appendices), allowing a third party to understand how conclusions were reached. By providing thorough documentation and following best practices, the consultant's work will be credible and actionable for the Town.

**ATTACHMENTS:**

1. Draft Request for Proposal for Fiscal Impact Analysis