



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 04/22/2025

ITEM NO: 1

DATE: April 22, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: Discussion and Consideration of Direction for the 2025-26 Budget Including Budget Balancing Approaches

RECOMMENDATION:

Staff recommends the Town Council

- Discuss and provide input to staff in developing the budget, and
- Provide direction to the Finance Commission in their review of the 2025-26 budget.

STRATEGIC PRIORITIES:

The item relates to all six core goals and all strategic priorities.

FISCAL IMPACT:

None. The discussion is intended to set direction for budget development and does not in itself result in a fiscal impact.

BACKGROUND:

Each year, between January and June, the Town undertakes an extensive process to prepare the fiscal year budget, effective July 1. This comprehensive budget development effort includes evaluating and determining several key components

- **Budget Guidelines and Timeline:** Establish initial guidance and expectations for departments along with a structured calendar of budget development and approval activities.
- **Revenue Projections:** Forecast anticipated revenues utilizing historical data trends, economic indicators, and consultations with external revenue consultants.
- **Personnel Costs:** Project salary, wage adjustments, benefits, and pension obligations for current and proposed staffing levels.

PREPARED BY: Chris Constantin
Town Manager

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

- **Setting Strategic Priorities:** Identify and reaffirm strategic priorities, providing foundational guidance to shape budget formulation and resource allocation.
- **Operating and Capital Expenditures:** Assess and prioritize operational necessities and capital improvement projects, balancing immediate needs and long-term investments.
- **Budget Balancing and Deficit Reduction:** Develop strategies to align expenditures with available resources, actively addressing any structural budget deficits through targeted reductions or revenue enhancements.
- **Public Input:** Engage the community through transparent outreach efforts to gather and incorporate public feedback into the budget development process.
- **Budget Approval:** Finalize and present the recommended budget for Town Council consideration and adoption.

In February 2025, the Town Council set high-level strategic priorities for the period of 2025-2027. This included prioritizing emergency preparedness, particularly with regard to wildfire risks, ensuring prudent financial management, and preserving the unique small-town charm of the community.

Also in February 2025, the Finance Commission reviewed the Town's initial Five-Year Financial Forecast, discussing projected financial conditions and emerging fiscal challenges. Subsequently, in April 2025, the Finance Commission provided input into the development of a Request for Proposal (RFP) aimed at conducting an external Five-Year Forecast and a comprehensive Fiscal Impact Analysis. These efforts are designed to enhance the Town's strategic approach to understanding current financial condition, addressing ongoing structural budget deficits, and projecting the revenue and expenditure needs from future development.

For the upcoming 2025-26 fiscal year, the Town faces a projected operational deficit of approximately \$3.7 million. To effectively address this challenge, Town staff seeks specific direction from the Town Council regarding:

- Perspective on expenditure reduction measures outlined in progressively impactful tiers,
- Exploration and adoption of potential new or adjusted revenue-generating initiatives,
- Identification of preferred strategies for achieving a balanced budget that aligns with established strategic priorities and community expectations.

Council's guidance on these key decisions will significantly inform the preparation of the final 2025-26 budget, ensuring a sustainable financial path forward.

DISCUSSION:

The purpose of this special meeting is to provide directions to staff on the approach and considerations for preparing a balanced budget. In two other agenda items presented today, staff also are looking to present a new tiered framework for capital improvement programs and presenting options in how the Town proceeds with community organization funding.

Approach and Considerations to Balancing the Budget

As is the case with other communities, the Town budgets revenue and expenditures conservatively. For the capital improvement program, the capital budget appropriates funding for all projects in the fiscal year that may be undertaken regardless of staff capacity consideration.

Personnel Vacancy Factor of 4.6%

In 2024-25, the Town introduced a vacancy factor of 4.6% as part of its approach to balance the budget recognizing vacancies and personnel changes during the year resulted in avoided personnel expenditures.

The vacancy factor approach allowed the Town to capture these avoided expenditures up front in the year instead of the end. However, the approach also increased the risk the Town could still fill all its positions without restriction or see a different change in personnel expenditure (i.e. impacts of increases in total compensation) and if it comes to pass, the Town will experience the actual deficit it was intending to avoid.

The Government Finance Officers Association (GFOA) best practice in effective budgeting of salary and wages encourages every government to consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel. However, the best practice is focused solely on determining more precise expenditure projections.

In a 2020 article published by the GFOA called “Balancing the Budget in Bad Times”, the GFOA recommends governments institute good control systems to stay on track with financial plans and forecasts. Specifically around position control, the article recommends the government maintain head count within limits and not fill vacancies unless it is affordable. Other areas speak to monitoring the budget to actual expenditures, purchasing controls, capital project controls, and evaluating impact of performance versus the cost of that performance.

Moving forward for 2025-26

The Town's 2025-2027 top strategic priority includes proper financial management to result in a structurally balanced forecast over the future years. To this end, I am recommending the following approaches for the 2025-26 budget.

- **Year 1 – Balancing Reserve Fund Use with Operational Reductions** – to ensure the Town does not overly reduce operations only to find its conservative projections and reductions lead to significant surpluses, this approach allows the Town to leverage some of its reserve balances to give time for other measures to facilitate closing the gap.
 - **Council Direction** – determine to what extent the Town budget will use reserves to cover the deficit and what level of reductions and revenue enhancements should be considered in 2025-26.
- **Year 1 – Capital Improvement Planning** – as will be discussed in the Capital Improvement Program budget discussion, move to a three tier program that only appropriates funding for those projects that have staff capacity to perform while leaving remaining funding unallocated.
 - **Council Direction** – to be given during discussion of the next agenda item.
- **Additional Controls on Expenditure Controls** – implement more top-level controls to monitor budget performance and balance operations with cost containment. No formal action is needed, but internal measures are moving forward.
 - **Position Control** – while no vacancy freeze is proposed currently, the Town Manager has implemented a robust evaluation process for filling vacant positions which balances operations, financial condition, strategic priorities, and service levels.
 - **Expenditure Control** – additional controls are being considered to include vehicle replacement evaluation, budget control at a lower level in departments, and additional budget monitoring mechanisms.

Moving into the fiscal year, the Town will need to continue fiscal prudence and planning for how to address the structural nature of the deficit. This may include evaluating how resources are deployed across functions, determining what sustainable service levels are, engaging in more robust public input in what the public desires from the Town, evaluating how major cost drivers can be brought into alignment with available revenue, and identifying other strategies for bringing the Town back into balance. These efforts will be challenging in ways not experienced by the Town, but we are a strong, smart, and resilient community who are up to the task.

Town's Five-Year Forecast

The Five-Year Financial Forecast (FY 2026-27 through FY 2030-31) serves as a key component of the Town's annual budget development process, enabling an informed evaluation of the Town's fiscal outlook to guide policy decisions and programmatic planning. This forecast follows the best practices recommended by the Government Finance Officers Association (GFOA) and incorporates assumptions and estimates based on the FY 2024-25 Mid-Year Review and updated projections from the FY 2025-26 Proposed Budget development (see Attachments 1 and 2).

The Forecast projects ongoing deficits beginning at approximately \$3.7 million in FY 2025-26, driven primarily by salary increases (already negotiated through FY 2026-27 and assumed at 2% annually thereafter), pension obligations, and general cost escalation. To manage the immediate deficit, short-term strategies include expenditure controls and utilizing \$3.7 million from the Unassigned Fund Balance. However, with revenues not keeping pace with rising costs, the Town must evaluate its long-term revenue capacity to sustain current service levels.

[illegible]

Operating Revenue Trends

The Town's financial health significantly depends on four primary revenue sources—property tax, sales tax, business license tax, and transient occupancy tax (TOT)—which together account for 67.5% of the forecasted General Fund revenues. Revenue assumptions for the Forecast period reflect input from key economic consultants, including MuniServices (sales tax), HdL Coren and Cone (property tax), and local industry representatives (TOT) (see Attachment 1).

The forecast assumes all Measure G Sales Tax and Excess Education Revenue Augmentation Fund (ERAF) revenues are allocated fully to General Fund operations.

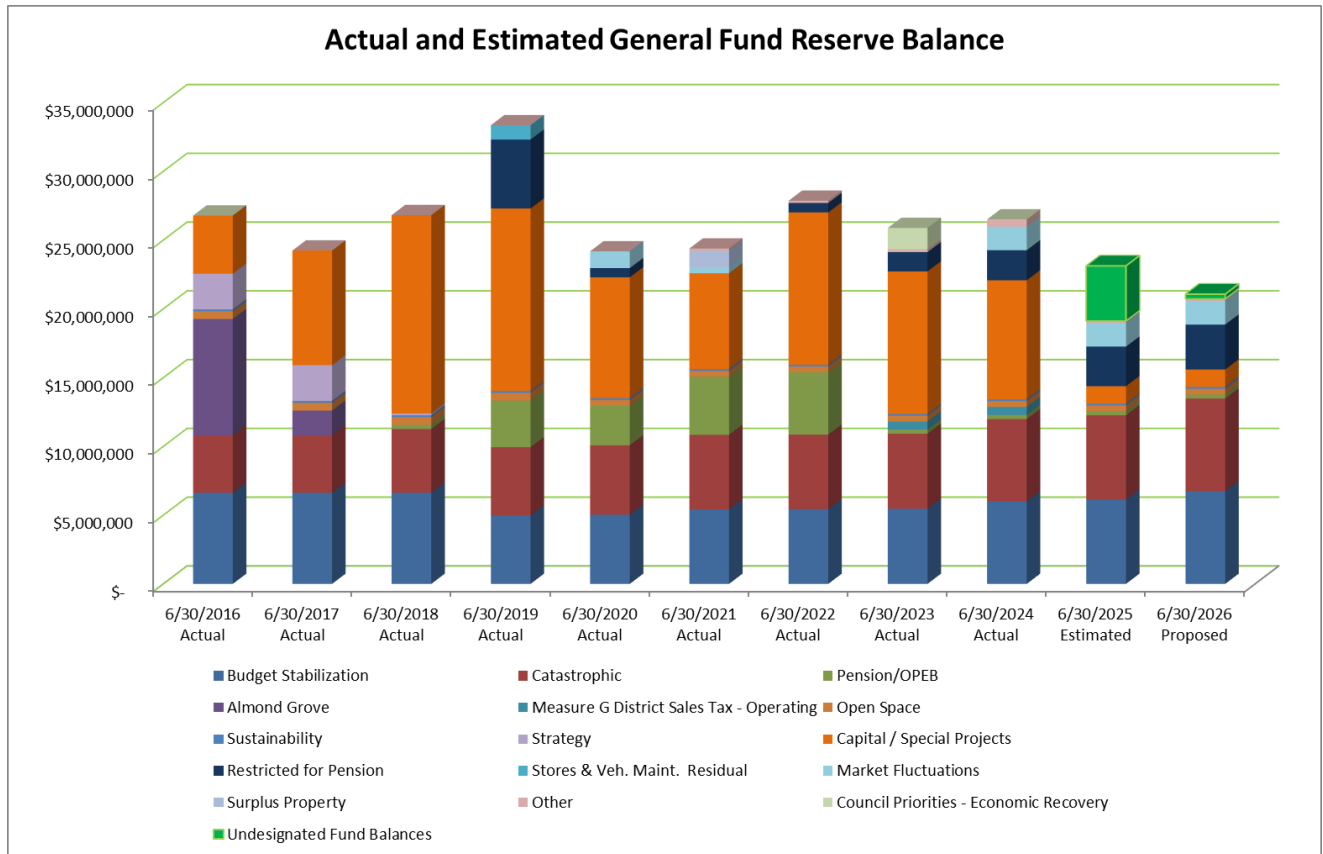
Operating Expenditure Trends

Operating expenditures are primarily influenced by cost escalation and new or enhanced service programs approved annually. Key cost drivers include inflation, negotiated labor agreements, healthcare, and mandated CalPERS pension contributions (detailed in Attachment 2).

Personnel costs constitute approximately 65.6% of the FY 2025-26 General Fund expenditures. To manage rising labor costs, the Town has maintained lower staffing levels. Pension and Other Post-Employment Benefits (OPEB) obligations continue to escalate due to historical underperformance in CalPERS investments and changes in demographic and actuarial assumptions. Despite proactive measures such as closing Tier 1 pensions, adopting the Public Employees' Pension Reform Act (PEPRA), and prefunding OPEB liabilities (now holding \$28.1 million in assets), pension costs remain a major financial pressure.

General Fund Reserves are projected at \$25.9 million by June 30, 2026, reflecting previous significant transfers to pension/OPEB obligations and Capital Improvement Programs (CIP). Historical transfers ranged from \$1.1 million (FY 2024-25) to \$5.7 million (FY 2019-20). No CIP transfer is proposed in FY 2025-26. Significant pension-related transfers include the CalPERS side-fund payoff (\$4.5 million, 2014) and additional discretionary payments totaling \$10.5 million from FY 2019-20 to FY 2020-21. The FY 2025-26 Proposed Budget achieves balance through the utilization of \$3.7 million of the Unassigned Fund Balance.

The following two charts show the historical breakdown of the General Fund reserve balances.



General Fund Reserve	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Actual	6/30/2019 Actual	6/30/2020 Actual	6/30/2021 Actual	6/30/2022 Actual	6/30/2023 Actual	6/30/2024 Actual	6/30/2025 Estimated	6/30/2026 Proposed
Restricted for:											
Pension	\$ -	\$ -	\$ -	\$ 5,015,316	\$ 669,978	\$ -	\$ 690,000	\$ 1,400,163	\$ 2,188,659	\$ 2,878,659	\$ 3,268,659
Property Held for Resale								44,338	344,338	-	-
Committed to:											
Budget Stabilization	\$ 6,621,808	\$ 4,969,847	\$ 5,037,243	\$ 5,419,222	\$ 5,427,603	\$ 5,460,485	\$ 5,991,566	\$ 6,129,774	\$ 6,736,781	\$ 7,991,544	\$ 7,991,544
Catastrophic	4,637,406	4,969,847	5,037,243	5,419,222	5,427,603	5,460,485	5,991,566	6,129,775	6,736,781	7,991,544	7,991,544
Pension/OPEB	300,000	3,388,913	2,878,913	4,232,500	4,532,500	300,000	300,000	300,000	300,000	1,000,000	1,000,000
Almond Grove	8,459,973	1,801,318	-	-	-	-	-	-	-	-	-
Measure G District Sales Tax - Operating	-	-	-	-	-	-	-	590,581	590,581	-	-
Assigned to:											
Open Space	\$ 562,000	\$ 562,000	\$ 562,000	\$ 562,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553
Strategy	2,600,000	2,600,000	129,090	-	-	-	-	-	-	-	-
Capital / Special Projects	4,222,405	8,332,953	14,421,203	13,262,303	8,787,958	6,965,356	11,071,231	10,359,577	8,651,056	1,264,639	1,264,639
Authorized Carryforward	99,284	34,852	99,927	413,729	-	-	33,145	37,698	85,861	85,861	85,861
Compensated Absences	-	350,329	2,122,512	1,232,653	1,539,408	1,649,917	1,519,147	1,580,623	1,555,478	1,555,478	1,555,478
To Workers' Compensation	-	-	-	1,232,654	-	-	-	-	-	-	-
Measure G District Sales Tax - Op/Cap	-	-	-	-	1,181,162	1,730,490	590,581	-	-	-	-
Stores & Veh. Maint. Residual	-	-	-	1,040,375	-	-	-	-	-	-	-
Market Fluctuations	-	-	-	-	1,218,732	438,333	-	-	1,712,246	1,712,246	1,712,246
Surplus Property	-	-	-	-	-	1,200,000	-	-	-	-	-
ERAF Risk Reserve	-	-	-	-	-	-	-	689,608	1,430,054	-	-
Council Priorities - Economic Recovery	-	-	-	-	-	-	-	1,556,614	20,684	-	-
Other	-	-	-	-	-	159,000	159,000	159,000	159,000	159,000	159,000
Un assigned Fund Balance										4,000,000	341,785
Total General Fund Reserve	\$ 27,643,429	\$ 27,150,612	\$ 30,428,684	\$ 37,970,527	\$ 29,335,497	\$ 23,914,619	\$ 26,896,789	\$ 29,528,304	\$ 31,062,072	\$ 29,189,524	\$ 25,921,309

Expenditure and Deficit Reduction Options

The Town's Executive Team came together to thoughtfully consider options to address the deficit. This exercise resulted in four groups of reduction considerations that will be referred to as tiers for the purposes of this report. Each tier progressively increases the types of reductions considered and the associated impacts, totaling to a potential savings of \$5 million. None of the four tiers include the elimination of filled full-time positions and all core services will continue in some fashion, albeit some would experience a decreased level of service as described in more detail in each tier.

As the Council reviews the tiers, it would be helpful for the Council to provide feedback on anything they would be interested in potentially pursuing and anything they would prefer staff did not pursue further. Staff recommend implementing Tier 1 and potentially portions of Tier 2 if there are items the Council finds tenable, with the remainder of the deficit addressed with revenue solutions as described in the next section, or with reserves. The more expenditure reductions or revenue options that are implemented, the less the Town will need to rely on reserves. It is also important to note that the more expenditure reductions that are implemented now preserves the use of reserves for the future, allowing more flexibility and time to address the deficit.

Tier 1 (Estimated \$500,000 savings):

In Tier 1, the team focused on efficiency and reprioritizing time and resources to align with core service delivery and strategic priorities. In this tier, the team was intentional in preserving staff hours and only reduced where part-time positions were either unfilled or currently filled by retired annuitants providing extra help. The reductions may mean that staff may not have funding available to address unusual or unexpected circumstances.

Of note, Tier 1 includes the removal of the \$2,500 Commission Budgets, many of which were first added in May 2023, while the Youth Commission and Parks and Sustainability Commission had some funds prior. This would save approximately \$17,500 annually as well as save staff time in clarifying the appropriate use of the funding. As the funding is primarily for supplies and materials to support commission activities, such as giveaway items at events, the Town plans to bulk purchase giveaway items for commission and staff to use at events and other activities as appropriate. This will save on costs as well as provide consistency. Staff will continue to support commissions in supplying printer materials and other needs within reason.

Tier 1 results in an estimated saving of \$500,000 (\$430,000 annually, \$70,000 one-time). Some of these savings have already been proactively included in the Proposed FY 25-26 Budget. As a result, if Tier 1 is implemented, it would reduce the Proposed Budget expenditures by an estimated \$300,000.

Tier 2 (Additional estimated \$1M savings):

Tier 2 contemplates deeper reductions, yet without significantly impacting core service or reducing staff hours. Some strategic priority related funding begins to be impacted in this tier.

- Strategic Priority Impacts
 - In Tier 2, funding related to the unhoused would be reduced by approximately \$26,000, removing the portable restroom and reducing the amount of funding for the Hotel Program. It is important to note that the Hotel Program is still expected to have enough funding to operate appropriately given a typical winter. With increased inclement weather, the budget may be tight but would likely be offset by the reduced number of hotels participating due to redevelopment.
 - Additionally, given the addition of the full-time Emergency Manager position, this tier reduces the number of part-time emergency coordinator hours, saving approximately \$18,000. This would result in fewer hours for the Emergency Manager to spend on expanding the program and strategic action items, but would still allow some part-time hours to continue to support the work. This tier also includes defunding \$500,000 of the \$1,000,000 one-time emergency management funding Council allocated in January 2025.
- Other Service Delivery Impacts
 - Reduces in outside legal services of approximately \$110,000, resulting in delays in Town Attorney response times, possibly by two to four weeks.
 - Removes power washing and decorative tree wrap lighting downtown, saving approximately \$100,000.
 - Turns off the fountains at Civic Center and Plaza Park, saving approximately \$20,000.
 - Removes doggie bags in parks as they often are taken by some members of the public in large quantities for personal use. This would save approximately \$10,000.
 - Reduces Library offerings including film, audiobook, and streaming media; e-resource databases and e-magazines; physical newspaper subscriptions; printed quarterly programs/brochures; and the number of media and book additions and replacements in the Library's collection. These efforts would save approximately \$84,000.
 - Reduces the amount the Town contributes toward utility payments on behalf of third parties.
 - Involves further reductions in staff training and memberships that may cause staff to fall behind in the latest concerns and issues in their fields, potentially impacting service to the public over time.

Tier 2 results in an additional estimated savings of \$1M (\$0.5M annually, \$0.5M one-time).

Tier 3 (Additional estimated \$1.1M savings):

Tier 3 includes reductions with more significant impacts, including part-time staff hour reductions, vacant full-time positions, and noticeable service reductions.

- Reorganizing Functions
 - Reorganizes the process for Community Police Complaints from the Town Attorney's Office to the Town Manager's Office, saving approximately \$60,000. This still allows oversight and vetting of the process by the Town Manager, but does not require the Town Attorney's time, resulting in more Town Attorney time for activity currently being contracted out.
- Strategic Priority Impacts
 - Reimagines the Town's transportation demand management functions to deliver services more cost effectively, such as through contracting services, saving approximately \$200,000. This will potentially result in lower levels of service and a reduction in the Town's relationships with funding partners like VTA and MTC, which may impact the Town's ability to secure grant funding for significant transportation projects.
 - Further reduces the number of part-time emergency coordinator hours, saving approximately an additional \$18,000. This would result in fewer hours for the Emergency Manager to spend on expanding the program and strategic action items but would still allow limited part-time hours should an urgent or pressing need arise.
 - Eliminates approximately \$75,000 in funding, including vehicle costs, for volunteer programs such as the Volunteer in Policing Program, Police Explorer Program, Disaster Assistance Response Team (DART), Community Emergency Response Team (CERT), and the Community Police Academy. This has the potential to weaken emergency response readiness; however, some of this could be supplemented by leadership within the volunteer emergency-related volunteer groups. The reduction in Police volunteer programs would lower community participation in crime prevention and safety programs and reduce youth engagement with law enforcement.
 - Tier 3 includes the removal of the remaining funding for the Town's unhoused initiatives, approximately \$34,000. This would remove funding for the Hotel Program and the food pantry and shower programs.
 - Tier 3 contemplates reenvisioning contracts for the visitor center and destination marketing services to reduce costs and focus on the most beneficial deliverables for the businesses and community.
- Other Part-Time Hour Impacts
 - Beyond what has already been mentioned, this tier involves other part-time hour reductions, saving approximately \$300,000. This would result in

fewer hours across several functions and potentially delayed service delivery. As it pertains to the Library, this reduction will translate to the public as a reduction in program offerings, events, and auxiliary services.

- Reductions in Service
 - Further reduces the addition and replacement of Library books and media, saving approximately \$27,000. Including the reductions in Tier 2, this reflects a 30% total reduction, and the public would likely experience increased wait times for popular materials and would see a decrease in the Library collection size over time.
 - Reduces block pruning and tree management by 50%, saving approximately \$100,000. At the current funding of \$200,000, there is difficulty in keeping up with demand. This reduction would result in fewer trees being pruned and requests for service from the public remaining unmet, which could lead to frustration unless expectations are reset.
 - Tier 3 includes the reimagining of Town's events, saving approximately \$13,000. Most notably, a restructuring of the Town's 4th of July event so that it would not fall on the actual holiday every year, which drastically increases costs. For example, it could occur on a Sunday in July to kick off the Music in the Park concert series, reducing the number of years in which the celebration falls on the actual holiday.
 - Tier 3 contemplates that Leadership Los Gatos would be staggered to occur every other year, effectively resulting in a savings of approximately \$5,000 a year (or \$10,000 every other year).
 - Tier 3 includes further reductions in staff training and memberships that may cause staff to fall behind in the latest concerns and issues in their fields, potentially impacting service to the public over time. In addition, it includes reductions or delays in technology replacements.

Tier 3 results in an additional estimated savings of 1.1M (\$1M annually, \$0.1M one-time).

Tier 4 (Estimated \$2.4+ savings):

Subsequent tiers beyond Tier 3 would have more significant staffing impacts. If Tier 4 is selected, staff will return with more specifics regarding staffing implications after working with the bargaining units.

In addition, Tier 4 would begin to significantly impact core community services. For example, it would include contemplation of reduction of Library operating hours and Town public counter hours. As Tier 4 considers reductions in these core services, reducing Community Grant funding is included as well. Removing the Leadership Los Gatos program is also considered in this tier, saving approximately \$20,000 annually. In addition, it contemplates removing approximately \$130,000 in Police Department and Parks and Public Works overtime hours to support Town

hosted events, the Holiday Parade, and the Halloween road closures, impacting the types of events the Town can support. If this were to occur, funding for the Halloween and Holiday Parade road closures would also be removed, saving approximately \$54,000. Other potential options include reducing the \$50,000 in crossing guard funding, approximately \$50,000 allocated for ALPR cameras, and the number of cable-broadcast Town Council or Planning Commission meetings.

Tier 4 results in an additional estimated savings of \$2.4M annually.

Revenue Options

Cities typically seek revenue sources to fund essential services, often aiming for full-cost recovery. However, fee studies frequently reveal that actual service costs significantly exceed existing fees, making large increases difficult to implement due to public resistance. As a result, cities adopt strategies to soften the impact of these necessary increases. Common approaches include gradually phasing in fee increases over several years or intentionally setting fees below full-cost recovery levels to lessen opposition. While these measures may reduce immediate pushback, they inevitably result in lower overall revenue.

The same outcome occurs when cities hesitate to introduce new revenue programs, such as revenue recovery measures that did not previously exist. Though these gradual, partial, or new approaches initially appear politically manageable and mitigate short-term resistance, they can inadvertently shift fiscal pressures to future budgets.

Over time, the increased costs of providing programs and services plus the cumulative impact of consistently under-recovering costs or delaying necessary revenue increases creates structural deficits. These deficits progressively intensify fiscal pressures, eventually requiring more drastic actions in future budgets when available resources become insufficient to sustain existing services and operations.

Los Gatos faces similar challenges as other cities regarding revenue generation and cost recovery. Given the projected deficits and the need for potential expenditure reductions, exploring options to increase revenue becomes critical for balancing the Town's ability to provide essential services. Revenue-generating options differ significantly based on implementation timelines. For instance, economic development initiatives designed to attract visitors and increase hotel occupancy could require upfront investment and years to yield substantial returns. In contrast, updating a fee schedule or renegotiating agreements may offer quicker financial benefits but face greater immediate opposition.

To facilitate consideration and decision-making, the following table categorizes revenue-generating options into short-term (one year) and medium-term (two or more years) horizons, highlighting their potential revenue impact. This categorization clearly illustrates how each measure could help address the financial deficit, emphasizing the importance of balancing

immediate affordability concerns against the imperative of long-term financial sustainability. Some of the short-term revenue measures are already factored into the proposed 2025-26 budget such as the recent police services agreement with Monte Sereno—while others illustrate potential avenues like revenue audits, subsidy reductions, and the introduction of entirely new revenue streams.

	Short-term	Medium-term	Grand Total ^[1]
Revenue Audit	\$ 150,000		\$ 150,000
Business License Compliance Audit	\$ 60,000		\$ 60,000
Business License Delinquency Services	\$ 50,000		\$ 50,000
Hotel Transient Occupancy Tax Audit	\$ 20,000		\$ 20,000
Property Tax Recovery Services	\$ 20,000		\$ 20,000
Reduce Subsidy	\$ 581,313	\$ 225,000	\$ 806,313
Adjusted Fee – Field Use Team 1	\$ 59,973		\$ 59,973
Adjusted Fee – Field Use Team 2	\$ 13,145		\$ 13,145
Adjusted Fee – Field Use Team 3	\$ 1,890		\$ 1,890
Application fee increase	\$ 50,000		\$ 50,000
Enhanced Cost Recovery for DUI & Special Enforcement Operations		\$ 75,000	\$ 75,000
Increase Fees for Services and Facility Rentals	\$ 100,000		\$ 100,000
Increased and Added Event Fees	\$ 4,500		\$ 4,500
New fee – Library meeting room rental	\$ 12,000		\$ 12,000
Residential Alarm Registration & False Alarm Fee Implementation		\$ 150,000	\$ 150,000
Subsidized rent for Vendor 1			
Subsidized rent for Vendor 2	\$ 50,000		\$ 50,000
Updated Law Enforcement Services Contract for Monte Sereno	\$ 289,805		\$ 289,805
New Revenue	\$ 859,000	\$ 3,084,874	\$ 3,943,874
Charge for License Agreements	\$ 5,000		\$ 5,000
Charge for Parklets		\$ 100,000	\$ 100,000
Contract Adjustment – Charging Stations Vendor 1	\$ 28,000		\$ 28,000
Contract Adjustment – Charging Stations Vendor 2	\$ 22,000		\$ 22,000
Contract HR Services for other entity	\$ 14,000		\$ 14,000
Encroachment Fee from Garbage Haulers	\$ 688,000		\$ 688,000
New Fee – Downtown Paid Parking (Option 3B)		\$ 1,984,874	\$ 1,984,874
New Fee – Oak Meadow Park Parking	\$ 90,000		\$ 90,000
Reduce Current Lessee Leased Premises and Rent to Another Entity	\$ 12,000		\$ 12,000
Sales Tax or Parcel Tax		\$ 1,000,000	\$ 1,000,000
Grand Total	\$ 1,590,313	\$ 3,309,874	\$ 4,900,187

^[1] Note: Savings are estimates and the list is intended to provide examples for consideration. Some options are already included in the preliminary draft budget.

As the Town Council discusses what direction to provide staff, additional revenue is a bucket that can reduce the structural components of the deficit.

ALTERNATIVES:

Not Applicable. Agenda item is a discussion to provide directions to staff.

COORDINATION:

Deficit Reduction and revenue items were coordinated with all department heads, Town Manager, and Town Attorney.

ENVIRONMENTAL ASSESSMENT:

This action does not constitute a project as defined under the California Environmental Quality Act (CEQA), pursuant to CEQA Guidelines Section 15378(b), which states that a project does not include continuing administrative or maintenance activities, general policy and procedure making, or other governmental fiscal activities which do not involve a commitment to any specific project. The recommended action involves only discussion, informational updates, administrative direction, or preliminary policy review, without committing the City to a specific activity or physical change to the environment.

Attachments:

1. Five-Year Financial Revenue Assumptions
2. Five-Year Financial Expenditure Assumptions

FORECAST ASSUMPTIONS
REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue Base Line Estimate	FY 2025-26 Budget	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast	FY 2030-31 Forecast
Property Tax SCC Assessor Office February 2025 Report and HdL Coren and Cone April 2025 Forecast	5.29% Net Taxable Value Change	5.42% Net Taxable Value Change	4.89% Net Taxable Value Change	4.89% Net Taxable Value Change	4.89% Net Taxable Value Change	4.89% Net Taxable Value Change
VLF Backfill HdL Coren and Cone April 2025 Forecast	5.25% Net Taxable Value Change	5.41% Net Taxable Value Change	4.90% Net Taxable Value Change	4.90% Net Taxable Value Change	4.89% Net Taxable Value Change	4.89% Net Taxable Value Change
Other Property Tax SCC Assessor Office February 2025 Report	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
ERAF SCC Assessor Office March 2025 Notification	\$3,220,000 Including 30% to Reserve	\$3,220,000	\$3,220,000	\$3,220,000	\$3,220,000	\$3,220,000
Sales Tax	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates
Sales Tax - Measure G	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates
Franchise Fee Current baseline set by FY 2024-25 Year-End Estimates	Current baseline set by FY 2024-25 Year-End Estimates	3%	3%	3%	3%	3%

FORECAST ASSUMPTIONS

REVENUE BASELINE AND PROJECTION FACTORS

Type of Revenue Base Line Estimates	FY 2025-26 Budget	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast	FY 2030-31 Forecast
Transient Occupancy Tax Current baseline set by FY 2024-25 Year-End Estimates	3%	3%	0%	0%	0%	0%
Business License Tax Current baseline set by FY 2024-25 Year-End Estimates	2%	2%	2%	2%	2%	2%
License & Permits Current baseline set by FY 2024-25 Year-End Estimates	3%	3%	3%	3%	3%	3%
Town Services Current baseline set by FY 2024-25 Year-End Estimates	3%	3%	0%	3%	3%	3%
Fine & Forfeitures Current baseline set by FY 2024-25 Year-End Estimates	1%	Varies	Varies	Varies	Varies	Varies
Interest Varies, based on Portfolio	Weighted Portfolio Yield 3.64%	Weighted Portfolio Yield 3.56%	Weighted Portfolio Yield 3.45%	Weighted Portfolio Yield 3.36%	Weighted Portfolio Yield 3.30%	Weighted Portfolio Yield 3.30%
Other Sources Current baseline set by FY 2024-25 Year-End Estimates	Varies	Varies	Varies	Varies	Varies	Varies

FORECAST ASSUMPTIONS
EXPENDITURE BASELINE AND PROJECTION FACTORS

Beginning in FY 2020-21, the Town is budgeting salaries at the actual salary plus a one-step increase. 68% of the workforce is already at top step or one step below top step. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of March 1, 2025 and rate is increasing in the actual anniversary date. The FY 2025-26 Budget and the FY 2026-27 – FY 30-31 Forecast includes 4.6% vacancy savings.

Type of Expenditure	FY 2025-26 Budget	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast	FY 2030-31 Forecast
Salaries (TEA, Conf, Temp)*	3%	3%	2%	2%	2%	2%
Salaries (POA)*	5%	4%	2%	2%	2%	2%
Salaries (AFSCME)*	4%	4%	2%	2%	2%	2%
Salaries (Management)*	3%	3%	2%	2%	2%	2%
Benefit - Medical**	7%	7%	7%	7%	7%	7%
Vacancy Savings	4.6%	4.6%	4.6%	4.6%	4.6%	4.6%
Operating Expenditures***	Varies	3%	3%	3%	3%	3%
Grants & Awards	0%	0%	0%	0%	0%	0%
Utilities***	Varies	3%	3%	3%	3%	3%
Internal Service Charges***	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement
Debt Service	Debt Service Schedules					

**Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units*

***Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA).*

****Based on historical trends.*

FORECAST ASSUMPTIONS

The Town's required employer contribution rate estimates were developed using data provided by each plan's most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Forecasted rates for FY 2055-26 and subsequent years are based on the most recent CalPERS actuarial valuation Reports as adjusted by the impact related to the FY 2022-23 CalPERS 5.8% investment return and forecasted payroll.

Type of Expenditure	FY 2025-26 Budget	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast	FY 2030-31 Forecast
Safety POA	109.09%	109.92%	112.95%	121.16%	121.75%	124.52%
Safety Management POA	112.09%	112.92%	115.95%	124.16%	124.75%	127.52%
Safety POA - PEPRA	15.84%	14.96%	20.99%	21.74%	22.04%	25.76%
Miscellaneous TEA/Confidential/ Management	30.02%	30.52%	30.82%	31.78%	31.92%	32.21%
Miscellaneous TEA/Confidential/ Management PEPRA						
Separate PEPRA rate for Miscellaneous has not been established yet by CalPERS.	30.62%	29.65%	31.01%	32.28%	33.81%	34.49%

**Safety Classic Rate reflects 3% decrease in employer's contribution rate to reflect 3% contribution as negotiated with the Town's POA during the collective bargaining process effective FY 2019-20.*

Budget Balancing Discussion 2025-26 Fiscal Year

Town Council Study Session
April 22, 2025
Item 1

AGENDA and RECOMMENDATION

1. Five-Year Financial Projection
2. Expenditure Reduction Options
3. Revenue Options
4. Next Steps

Recommendation: Staff recommends the Town Council discuss and provide input to staff in developing the budget and provide direction to the Finance Commission in their review of the 2025-26 budget.

Budget Development Process

- Budget Guidelines and Timeline
- Revenue Projections
- Personnel Costs
- Setting Strategic Priorities
- Operating and Capital Expenditures
- Budget Balancing and Deficit Reduction
- Public Input
- Budget Approval

2025-26 Budget Development

- Revenue is projected conservatively using Avenu and HdL for our two top revenue sources
- Expenditures include conservative calculations with input from departments and finance.
- Personnel expenditures include an assumed 4.6% vacancy factor.
- Capital budget switches to Tier system focused on staff capacity and appropriating only Tier 1 projects.

2025-26 Budget – Vacancy Factor

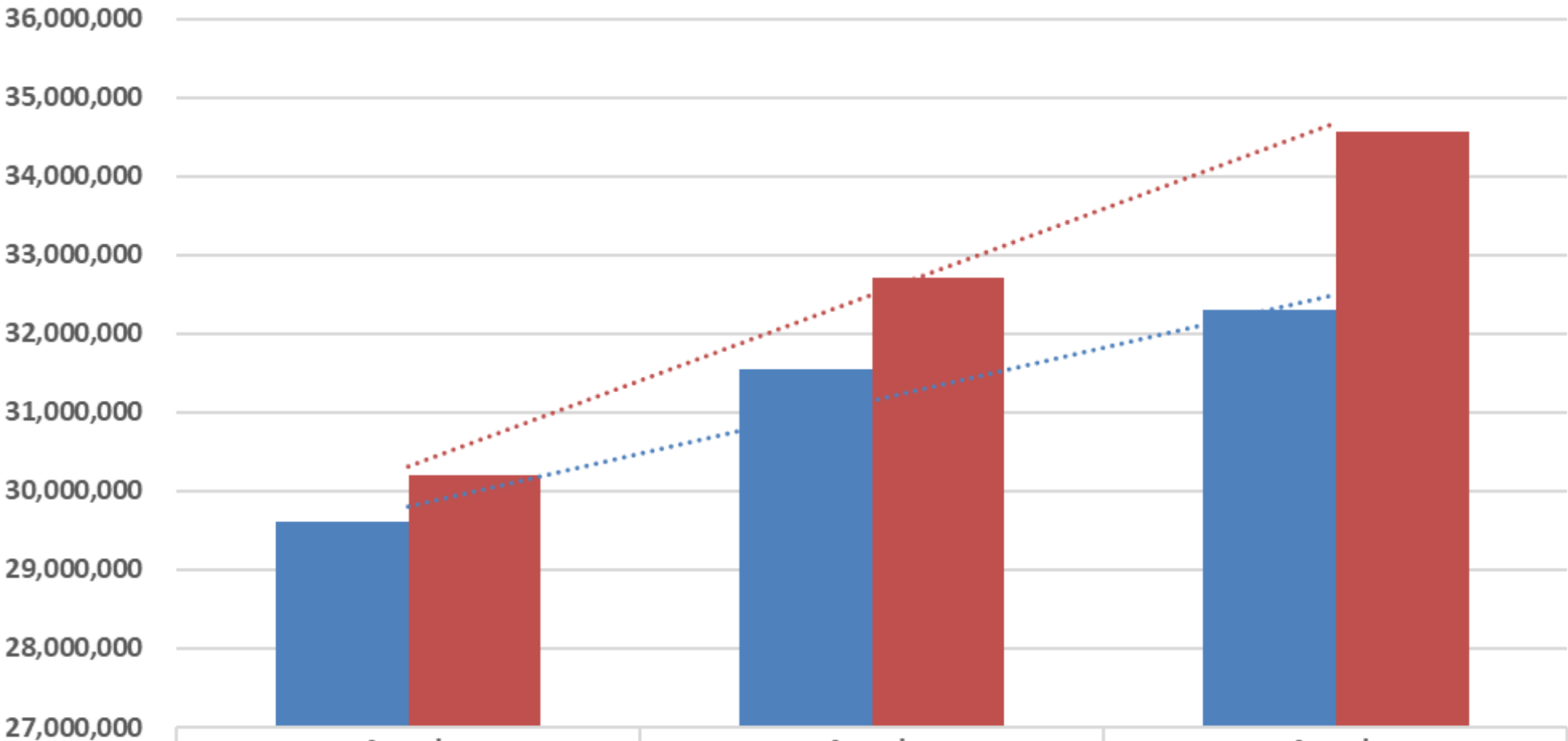
- Personnel expenditures include an assumed 4.6% vacancy factor (\$1.9 million for fiscal year).
- History indicates that we will continue to maintain vacancies, but internal information from departments indicate filling of positions.
 - Differentials in starting steps may help
- Best practice may support calculating a vacancy factor for forecasting, but expenditure controls are necessary

Five-Year Financial Projection

- Projected structural deficit of \$3.7M in FY 2025-26
- Deficit driven by general cost escalation, including salaries, pension obligations, and cost of supplies
- Forecast period: FY 2025-26 through FY 2030-31
- Revenue not keeping pace with rising expenditures

Revenue Category	2023-24 Actual	2024-25 Estimated	2025-26 Proposed	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast
Total Operating Revenue (OR) and Transfer In	58.5	58.3	\$58.1	\$58.8	\$60.4	\$62.0	\$62.4	\$64.5
OR with Transfers and use of reserves	61.9	60.8	\$58.1	\$58.8	\$60.4	\$62.0	\$62.4	\$64.5
Total Expenditures	53.6	57.4	\$61.4	\$63.4	\$65.7	\$68.1	\$68.3	\$69.7
Exp with Transfers and reserve allocations	57.7	60.8	\$61.8	\$63.8	\$66.1	\$68.5	\$68.7	\$70.1
Net Revenue	4.2	0.0	(\$3.7)	(\$5.0)	(\$5.7)	(\$6.5)	(\$6.3)	(\$5.6)

Combined Property Tax and Sales Tax Growth Compared to Salaries and Benefits



■ Property Tax & VLF & Sales Tax

■ Salaries and Benefits

Actuals

2021-22

29,612,753

\$30,192,747

Actuals

2022-23

31,549,565

\$32,719,665

Actuals

2023-24

32,298,900

\$34,570,393

General Fund Reserve	6/30/2016 Actual	6/30/2017 Actual	6/30/2018 Actual	6/30/2019 Actual	6/30/2020 Actual	6/30/2021 Actual	6/30/2022 Actual	6/30/2023 Actual	6/30/2024 Actual	6/30/2025 Estimated	6/30/2026 Proposed
Restricted for:											
Pension	\$ -	\$ -	\$ -	\$ 5,015,316	\$ 669,978	\$ -	\$ 690,000	\$ 1,400,163	\$ 2,188,659	\$ 2,878,659	\$ 3,268,659
Property Held for Resale								44,338	344,338	-	-
Committed to:											
Budget Stabilization	\$ 6,621,808	\$ 4,969,847	\$ 5,037,243	\$ 5,419,222	\$ 5,427,603	\$ 5,460,485	\$ 5,991,566	\$ 6,129,774	\$ 6,736,781	\$ 7,991,544	\$ 7,991,544
Catastrophic	4,637,406	4,969,847	5,037,243	5,419,222	5,427,603	\$ 5,460,485	\$ 5,991,566	6,129,775	6,736,781	7,991,544	7,991,544
Pension/OPEB	300,000	3,388,913	2,878,913	4,232,500	4,532,500	300,000	300,000	300,000	300,000	1,000,000	1,000,000
Almond Grove	8,459,973	1,801,318	-	-	-	-	-	-	-		-
Measure G District Sales Tax - Operating	-	-	-	-	-	-	-	590,581	590,581	-	-
Assigned to:											
Open Space	\$ 562,000	\$ 562,000	\$ 562,000	\$ 562,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000	\$ 410,000
Sustainability	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553	140,553
Strategy	2,600,000	2,600,000	129,090	-	-	-	-	-	-	-	-
Capital / Special Projects	4,222,405	8,332,953	14,421,203	13,262,303	8,787,958	6,965,356	11,071,231	10,359,577	8,651,056	1,264,639	1,264,639
Authorized Carryforward	99,284	34,852	99,927	413,729	-	-	33,145	37,698	85,861	85,861	85,861
Compensated Absences	-	350,329	2,122,512	1,232,653	1,539,408	1,649,917	1,519,147	1,580,623	1,555,478	1,555,478	1,555,478
To Workers' Compensation	-	-	-	1,232,654	-	-	-	-	-	-	-
Measure G District Sales Tax - Op/Cap	-	-	-	-	1,181,162	1,730,490	590,581	-	-	-	-
Stores & Veh. Maint. Residual	-	-	-	1,040,375	-	-	-	-	-	-	-
Market Fluctuations	-	-	-	-	1,218,732	438,333	-	-	1,712,246	1,712,246	1,712,246
Surplus Property	-	-	-	-	-	1,200,000	-	-	-	-	-
ERAF Risk Reserve	-	-	-	-	-	-	-	689,608	1,430,054	-	-
Council Priorities - Economic Recovery	-	-	-	-	-	-	-	1,556,614	20,684	-	-
Other	-	-	-	-	-	159,000	159,000	159,000	159,000	159,000	159,000
Un assigned Fund Balance										4,000,000	341,785
Total General Fund Reserve	\$ 27,643,429	\$ 27,150,612	\$ 30,428,684	\$ 37,970,527	\$ 29,335,497	\$ 23,914,619	\$ 26,896,789	\$ 29,528,304	\$ 31,062,072	\$ 29,189,524	\$ 25,921,309

Moving Forward – Internal Controls

- Year 1 – **Balancing Reserve Fund** Use with Operational Reductions
 - Leaning on reserves to avoid unnecessary reductions to continue assessment
- Year 1 – **Capital Improvement** Planning
 - Tiered structure focuses on staff capacity and improving prioritization
- **Additional Controls** on Expenditures – internal by management
 - **Position Control** – Robust evaluation process balancing operations, financial condition, priorities, and service levels
 - **Expenditure Control** – Vehicle replacement, department budget control, and additional mechanisms

Moving Forward – Note of Caution

- The tiered options were created to assist the executive team in assessing general impact with emphasis on protecting core services and permanent staffing.
- Facilitate discussion with Town Council based on the general tenor of the impacts but to protect against alarm for actions which may not be implemented.
 - Until final proposed budget, no reduction, revenue increase, or other measure is a reality.
 - Numbers are estimates
- Current proposed budget built with minimal reductions and could balance budget on reserves.
 - Provides additional time to assess financial condition, conduct five-year external projection, and to determine extent measures implemented address deficit in 2025-26.

Moving Forward – Experience with Deficits

- **Resistance** – any reduction or revenue increase can lead to significant opposition and public pressure. *“We like adding but find it challenge to then reduce or eliminate.”*
- **Balancing Essential vs. Non-Essential Services** – there can be difficulty in distinguishing what is essential with valued by less critical services.
- **Levels of Service** – activity may be essential, but there can be difficulty separating service with service level.
- **Uncertainty** – we want more information or more precision where such is not available.
- **Long vs Short Term** – some cuts help in the short term but have long-term implications.

How do we move forward?

- **Expenditure and Deficit Reductions** – reducing the annual spend for the Town.
- **Revenue Increases** – identifying and implementing measures increases available revenue to support Town activities.
- **Gaining efficiencies** – optimizing or rethinking service delivery.
- **Innovation and Economic Development** – looking to opportunities to enhance drivers of primary revenue or provision of services.

Expenditure and Deficit Reduction Options

- Department Level – Each executive team member considered reduction options for their respective departments.
- Executive Team – The team met to combine the reductions into four tiers that progressively increase the types of reductions and impacts.
- Team presented a variety of revenue options to offset the need for service impacts.

Tier 1: Efficiency & Strategic Alignment

- Estimated Savings: \$500,000 (**\$430,000 is ongoing**)
- Focus: **Protect existing full-time staffing levels**; reductions limited to unfilled or retiree-filled part-time positions.
- Some of the items already implement in the budget, so proposed budget would be reduced by \$300,000 in Tier 1.
- Initial round was reductions proposed by departments expecting them to be implemented but still providing core services.
- Example – **Removing \$17,500 in commission budgets** and providing bulk Town giveaways when needed for events.

Tier 2: Initial Service Reductions

- Estimated Savings: \$1,000,000 (**\$500,000 is ongoing**)
- Focus: Deeper reductions; **begins to affect strategic priorities** funding
- **Unhoused Services:**
 - Reduces portable restroom and some Hotel Program funding (~\$26,000).
 - Hotel Program still operational with adequate support for typical winters; tighter during harsh weather.
- **Emergency Management:**
 - Reduces part-time emergency coordinator hours (~\$18,000); limits program expansion efforts.
 - Defunds half of the one-time emergency management allocation (\$500,000).

Tier 2: Initial Service Reductions

- **Legal Services:** Reduction (~\$110,000) may delay Town Attorney responses by 2-4 weeks.
- **Downtown Maintenance:** Eliminates power washing and decorative tree lighting (~\$100,000).
- **Civic Features:** Turns off Civic Center and Plaza Park fountains (~\$20,000).
- **Park Amenities:** Removes doggie bags (~\$10,000).
- **Library Services:** Reduces multimedia offerings, e-resources, subscriptions, and new materials (~\$84,000).
- **Utility Subsidies:** Decreased Town contributions toward third-party utility payments.
- **Staff Development:** Additional cuts to training and memberships.

Tier 3: Significant Service & PT Staffing Impacts

Estimated Additional Savings: \$1.1 Million

- **Ongoing Savings: \$1,000,000**
- **One-time Savings: \$100,000**

Overview:

- Noticeable reductions in service delivery
- Includes part-time staffing reductions and vacant position eliminations
- Adjustments impacting strategic priorities and community services

Tier 3: Significant Service & PT Staffing Impacts

Reorganize Community Police Complaints Process

- Reassign from **Town Attorney's Office** to **Town Manager's Office** (~60,000)
- Allows Town Attorney to prioritize essential legal functions
- Leverages Town Manager's public safety expertise

Transportation Management

- Reimagine and potentially contract out transportation demand management (~\$200,0000)
- Potential impacts:
 - Reduced service levels
 - Potential reduction in regional partnerships (VTA, MTC)
 - Potential loss of grant funding opportunities

Tier 3: Significant Service & PT Staffing Impacts

Emergency Management

- Additional reduction of part-time coordinator hours (~\$18,000)
- Limits strategic initiatives; minimal support maintained

Volunteer Programs

- Eliminate support funding (~\$75,000) for:
 - Volunteers in Policing, Police Explorer Program, Disaster Assistance Response Team (DART), Community Emergency Response Team (CERT), Community Police Academy
- Potential impacts:
 - Reduced emergency response readiness
 - Decreased community and youth engagement

Tier 3: Significant Service & PT Staffing Impacts

Unhoused Initiatives

- Remove remaining support (~34,000) for:
 - Hotel Program
 - Food pantry and shower programs

Visitor & Marketing Services

- Reevaluation and restructuring of visitor center and destination marketing contracts
- Focus on most impactful deliverables for businesses/community

Tier 3: Significant Service & PT Staffing Impacts

Additional Part-Time Staffing Reductions

- Significant part-time hour cuts across multiple services (~\$300,000)
- Potential impacts include delayed service delivery and reduced availability:
 - Library programs, community events, and auxiliary services

Library Collection

- Additional reductions in new media and books (~\$27,000, 30% total reduction including Tiers 2 & 3)
- Increased wait times and decreased collection diversity

Tier 3: Significant Service & PT Staffing Impacts

Tree Management

- 50% Reduction (~\$100,0000)
- Likely delays in tree maintenance; potential unmet public service requests

Community Events

- Restructure 4th of July event scheduling (not always on July 4) (~\$13,000)

Leadership Los Gatos

- Program to run every other year (~\$5,000 annually, or \$10,000 every other year)

Tier 3: Significant Service & PT Staffing Impacts

Staff Development & Technology

- Further cuts to training, memberships, and delays in technology replacements
- Potential impacts:
 - Reduced staff capacity to remain updated in professional fields
 - Longer-term impacts on service quality and efficiency

Tier 4: Major Impacts on Core Services & Staffing

Estimated Additional Savings: \$2.4 Million Annually

Overview:

- Most significant impacts among all tiers
- Direct effects on core community services
- Substantial staffing implications; specifics to follow bargaining discussions

Tier 4: Major Impacts on Core Services & Staffing

Library and Public Counter Hours

- Reduction of Library and public counter operating hours
- Direct impact on public access, community resource availability, and in-person counter access

Community Grant Funding

- Reduced financial support to community organizations

Leadership Los Gatos Program

- Remove program (~\$20,000)
- Loss of leadership training and community engagement opportunities

Tier 4: Major Impacts on Core Services & Staffing

Support for Events

- Remove PD and PPW overtime for Town events, Holiday Parade, and Halloween closures (~\$130,000)
- Remove road closures for Parade and Halloween (~\$54,000)

Public Safety & Traffic

- **Crossing Guard Program:** Reduction or elimination (~\$50,000 savings)
- **ALPR Cameras:** Reduced funding or program elimination (~\$50,000 savings)

Public Meetings

- Reduced number of cable-broadcasted Town Council and Planning Commission meetings
- Potential reduction in community transparency and engagement opportunities

Revenue Options

- **Revenue Audits** - \$150,000 short-term
 - Audits of business license, hotel TOT, Property Tax with recovery services
- **Reducing Subsidies** - \$581,313 short-term (\$225,000 longer)
 - Implement or increase fees for use of various facilities and activities.
 - Field usage, application fees, service and facility rentals, event fees, meeting room rental
 - Reduce subsidized rent for vendors leasing space from Town
 - Updating Law Enforcement Agreement with Monte Sereno (complete)
 - Cost recovery for DUI and special enforcement operations
 - Residential alarm registration and false alarm fee implementation

Revenue Options

- **New Revenues** - \$859,000 short-term (\$3,943,874 longer)
 - Vehicle charging stations contract adjustments
 - Charge for parklets, license agreements, encroachment fee for garbage haulers
 - New fees for paid parking – Oak Meadows and/or downtown
 - Sales or Parcel tax
 - Contract to provide services to other governmental agencies

Efficiencies and Innovation

- **Internal Operations** – review key activities and services to identify opportunities to improve cost efficiency.
- **Contracting** – consider re-bidding services to obtain better terms where applicable.
- **Driving Economic Development** – invest in activities which can yield increase in revenue drivers: sales tax, TOT, etc.
- **Realignment** – deeply assess core services desired by the public and align services with available ongoing revenue.

Council Input

- **Discussion** – discuss the information presented on this agenda.
- **Approach to Final Budget** – advise on what the Finance Commission should review and what staff should consider in developing the final budget.
- **Discuss Barriers to Decision Making** – identify areas Council desires more information or action by staff to facilitate smooth approval of the final budget.



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 04/22/2025

ITEM NO: 1

DESK ITEM

DATE: April 22, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: Discussion and Consideration of Direction for the 2025-26 Budget Including Budget Balancing Approaches

REMARKS:

Attachment 3 contains Public Comment received before 11:00 a.m., Tuesday, April 22, 2025.

Attachments (previously distributed with the staff report):

1. Five-Year Financial Revenue Assumptions
2. Five-Year Financial Expenditure Assumptions

Attachment (distributed with this Desk Item):

3. Public Comment

From: [Phil Koen](#)
To: [Chris Constantin](#); [Gitta Ungvari](#); [Wendy Wood](#)
Cc: [Linda Reiners](#); [Matthew Hudes](#)
Subject: GFOA Best Practices - Effective Budgeting of Salaries and Wages - Special Study Session
Date: Monday, April 21, 2025 3:48:40 PM
Attachments: [www.gfoa.org.pdf](#)

[EXTERNAL SENDER]

Chris,

Since the Staff memo mentions GFOA Best Practices, I have taken the liberty to attach the GFOA Best Practice on Effective Budgeting of Salaries and Wages. This was the best practice the Finance Commission relied upon we made the recommendation to create a vacancy factor of 4.6% when budgeting total salary and wages. I was part of that decision and supported the vacancy factor.

The 4.6% vacancy factor was determined based on a 5 year review of historical vacancy trend and actual expenses vs budget for the Town's salary and wages. In FY 24, the adopted budget called for total wages of \$23.2m with an offsetting \$1.7m in a vacancy factor, resulting in \$22.5m net budget salary expense. The FY 24 actual salary expense was \$21.9m, which was less than the \$22.5m adopted net budget.

The vacancy factor in FY 24 achieved what GFOA recommends, namely not budgeting for all positions since not all positions are filled for the entire year. To ignore the historical vacancy factor will certainly result in an unnecessary budget cushion for salary and wages at a time when financial resources are scarce. This leads to a misallocation of the Town's capital and potentially other critical needs going unfunded.

In closing, in looking over the past 10 years of budget vs actual results for salary and wages expense, there is absolutely no evidence that by applying a prudent vacancy factor to the annual budget for salary and wages the Town is increasing the risk the Town could fill vacant positions. Rather it is just the opposite - it is applying prudent budgeting procedures recommended by GFOA by acknowledging that not every budgeted position is filled for the entire year and thus avoiding misallocating capital and enabling other critical needs to be appropriately budgeted.

Please note these are my personal thoughts as a member of the Finance Commission and I am not representing the entire Finance Commission.

Thank you,

Phil Koen
Member of the Finance Commission



Home / Best Practices / Effective Budgeting of Salary and Wages

BEST PRACTICES



Effective Budgeting of Salary and Wages

Every government should consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel.



Given the funding constraints governments are facing, accurate expenditure projections are more important than ever. Since salaries make up the greatest portion of the expenditure budget, it is logical to apply forecasting techniques that can provide a true picture of where payroll dollars are headed. Another consequence of slowing revenues is the need for greater control over expenditures. Governments can use various mechanisms to

manage headcount levels in light of cost constraints.

GFOA encourages every government to consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel. The items shown below provide governments with the areas in which they should consider adopting practices to more effectively budget salary and wages. Additionally, in order to analyze total compensation, benefits need to be considered.

Personnel Tracking System. Budget payroll projections are based on the estimate of budgeted positions for the year, so providing the correct number of budgeted positions is important. The system to track budgeted positions may reside in the human resources department rather than the budget department, so it is vital that the departments work together to be consistent in reporting. The system should be able to track all types of employees, not just full-time.

Vacancy Adjustments. Not all positions will be filled 52 weeks per

year, so expected vacancies need to be addressed in the salary budget. In doing so, however, governments should consider developing policies on how to treat these vacancies. If the government fully funds salaries associated with vacancies, it is building some potential cushion into the budget. Items to consider:

- **Start Dates.** Expected start dates for open positions may vary. Keeping track of those assumptions is important because a large dollar variance may result when an actual start date differs from the budgeted date.
- **Trends.** Since most governments experience some vacancies during the year, it may be prudent to include a hiring lag in the budget. One way to determine the dollar impact of this lag is to review trends (average filled positions per year versus average vacant positions). This analysis can be conducted at the department level or broken out by individual position. In forecasting open positions, organizations should keep in mind that technical or higher level positions are usually harder to fill.
- **Frozen or Eliminated Positions.** Many open positions are intentionally being left vacant. While some of these positions

may be eliminated before the start of the fiscal year, other positions may be temporarily frozen once the fiscal year begins. The dollars saved by not filling these positions should be quantified. If the positions being eliminated are currently filled, then the government might also need to include severance payouts in the budget. Governments are also using furloughs as a means to reduce expenditures. Those cost savings should be identified as well.

- **Funded Versus Unfunded Positions.** Not every position that is requested gets approved. Approved, or funded, positions along with the money to pay for them are included in the budget. Unfunded positions, or those that were requested but not approved, should be noted, especially if management decides at some point to reconsider some of those denied position requests. Departments often include new positions in their budget requests, typically in the departmental request stage. In detailing new positions in the final budget presentation, it is useful to categorize them as funded or unfunded. This way, budget decision makers can clearly identify those unfilled positions that do not have budget dollars available. The budgetary implications of not funding those positions could also be shown.

- **Attrition (Planned Retirements).** Budget consideration should be given for those positions where employees have indicated specific retirement dates. Payouts need to be budgeted. Also, if governments use retirement incentives, the potential loss in quality of service should be considered.

Collective Bargaining Units. When the personnel budget is being developed, the positions that are covered under collective bargaining should be noted. The group name and representation should be identified, along with the beginning and end date of the contract. Also, the government should use consistent terminology when referring to union and non-union payroll items.

- **Contract Settlements.** Be aware of key dates in contract provisions. It may be prudent to set aside reserves for contract settlements, especially if the new terms are expected to be less favorable than those in the existing contracts.
- **Other Considerations.** Some union agreements include items such as overtime, holiday premiums, shift differentials, uniform allowances, and license/certification pay. These should also be accounted for in the budget, as failure to do so could lead to significant cost overruns.

Impact of Inflation. Inflation can have a significant impact on

payroll forecasting. Cost-of-living adjustments often are used when forecasting personnel costs. The Consumer Price Index (CPI), a broad measure of consumer inflation, is the cost-of-living index used most often for determining salary increases. The U.S. Bureau of Labor Statistics Employment Cost Index might be a better index for this purpose, as it measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries.

Optimal Staffing Level. One of the biggest challenges a government will face is determining the optimal level of staff needed to meet the organization's goals and objectives.

- **Comparison to Other Governments.** Some governments use a population-to-employee ratio to indicate proper staffing levels. Jurisdictions can compare themselves with surrounding communities and even specific departments, although the effects of privatization can skew such a comparison.
- **Staffing Guidelines.** The organization might have specific policy guidelines that serve as a basis for determining hiring levels. For example, some school districts set up support staffing sheets to specify what personnel can be hired. Hiring

levels might be based on such factors as the number of schools in a district, the size of an individual school in square feet, or a school's enrollment.

- **Classifying Positions by Goal.** Hiring decisions should be made to fulfill strategic initiatives, based on clear goals and specific action plans that have been established to help accomplish those goals. Most governments budget personnel by department. A number of governments have moved beyond this traditional approach, however, and started to classify positions in other ways.
- **Use of Volunteers.** It is becoming increasingly common to encourage the use of volunteers in certain programs and services. Fire department staffing provides a classic example of volunteer usage.
- **Seasonal and Temporary Positions.** Some divisions or jurisdictions use part-time or seasonal employees. Park districts, for example, often adjust staffing levels by season.
- **Other Considerations.** Some governments make more use of overtime as an option instead of hiring full-time workers. The use of retired employees for contractual services is another alternative to adding headcount.

Compensation Approaches. When analyzing budgeted position compensation, the following items should be considered:

- **Step and Grade Systems.** Many governments use a salary range or grade structure for budgeting individual positions. Others, however, have begun to transition away from longevity-based systems in favor of pay for performance systems.
- **Pay for Performance.** Pay for performance is intended to foster workplace productivity. The anticipated impact comes from the ability to reward performance and thereby attract and retain quality employees. A onetime bonus is an option to reward productivity and is sometimes used in lieu of a pay increase. Pay for performance faces a number of challenges, including the cost of monitoring employee performance and the design of a useful appraisal system.
- **Wage Surveys.** Monitoring the average wage increases in other jurisdictions can help a government determine the appropriate level and validity of salary range or grade structures for its own annual salary increases. This information can be obtained by subscribing to government- or industry-specific journals, engaging a consultant,

reviewing peer government budget documents, or contacting other governments directly to ask questions.

Personnel Categorization. A traditional way of approaching the personnel budget is the view that each position directly affects the operating budget. This may not always be true, however.

- **Capital versus Operating Classification.** Consideration should be given to the percentage of time that an individual may be working on capital versus operating projects.
- **Cost Allocation.** A similar approach to moving personnel expenses out of the operating budget is the use of a well-developed cost allocation plan. Such a plan allows the government to shift costs to specific activities.
- **Funding Sources.** If a new position is created based on an outside funding source, care should be taken to ensure that the source is not a one-time occurrence.
- **Privatization or Shared Services.** To save money or improve services, many governments have turned to the private sector or to other governments as alternatives to in-house service delivery or staffing. The services most often provided collaboratively include health and human services, transit

systems, airports, sewage collection, disposal of hazardous wastes, libraries, tax assessing, and title records.

Monitoring. Governments need to monitor the salary and wages budget through the year, not just when the budget is being put together. Should actual results deviate from the budget in a significant fashion, then adjustments need to be made.

References:

- GFOA Best Practice: *Examining the Benefits of Managed Competition*, 2006.
- GFOA Best Practice: *Budgeting for Results and Outcomes*, 2007.
- GFOA Best Practice: *Alternative Service Delivery: Examining the Benefits of Shared Services*, 2008

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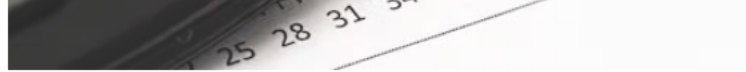
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