

Finance Commission Identified Areas for Review in Five-Year Forecast and Recommendations from the Finance Commission with Staff Responses

Item	Finance Commission Recommendation	Staff Comments	Change from Proposed Budget
Revenue			
Property Tax Adjustment	Increased property tax projected for 2025-26 by \$200,000.	Staff accept the recommendation.	The Property Tax increases by \$200,000.
Sales Tax Adjustment	N/A	Increase sales & use tax projected for 2025-26 by \$162,759 as proposed by the Town's Sales Tax consultant. Change occurred after publishing of the proposed budget.	Sales & Use Tax increases by \$162,759.
Planning and Building Permit Fees	Review planning and building fees to understand the drop-off of approximately \$600,000.	Planning Department recommends a \$15,000 addition.	Planning Permit Revenue increases by \$15,000.
Engineering Permit	N/A	The Engineering Department is recommending a \$358,891 increase to this revenue source due to approval of new fees by the Town Council on 5/6/2025.	Engineering permit fee increases by \$358,891.
Business License Tax	Increase business license tax by \$200,000 to reflect historical trends.	Staff recommend using HdL, the Town's current business license and property tax consultant, to conduct a business license audit. Staff estimate recovery could reach \$50,000.	Business license revenue increases by \$50,000 for FY 2025-26 Proposed Budget.
Intergovernmental	Review Intergovernmental-State drop and increase where the 2025-26 amount does not appear aligned with the trend.	Staff identified that SLESF Intergovernmental Revenue was overstated by \$200,000 from the beginning of FY 2026-27.	There are no changes to the FY 2025-26 Proposed Budget.

Investment Income	Remove the GASB 31 adjustment of (\$500,000) for mark to market as it is a balance sheet item. Increase Interest Income by \$700,000	Staff are consolidating the line items. Consolidating accomplishes the intent to lower future interest expense projections, as this value was intended to demonstrate volatility. Staff reviewed the investment estimates and increased the General Fund interest income by 181,268.	Lines consolidated into Investment income. Total General Fund Interest increased by \$181,268.
License and Permits – Waste Hauler Encroachment Permit	N/A	Staff increased license and permits by \$668,000 to reflect encroachment fees assessed by solid waste joint powers authority. Change occurred after publishing the proposed budget.	License and Permits increase by \$668,000.
Expenditures			
CalPERS Benefits	Projection for 2025-26 appears to be \$1 million higher than shown in consultant Foster & Foster's June 30, 2023 report.	Staff reviewed the projections with Foster & Foster. The unfunded liability amount which represents 63.5% of the projection was verified. Additionally, the normal cost percentages applied to pensionable pay were verified. Projected payroll was the variable which determined the pension expense projection. Based on more review, staff can take a more aggressive position which may result in up to a reduction of \$255,000 in pension expense.	Reduces CalPERS benefits expenditure by \$255,000.
Internal Service Charges	Internal Service Charges appear \$1 million higher than reasonable. Assess and determine what it is, why we have it, and can it be reduced.	General Fund Internal Service Charges are increasing significantly in the General Liability and Workers' Compensation Internal Services Funds to ensure that General Fund charges cover cost. The insurance premium is the primary driver of the increases in the	There is no anticipated saving in FY 2025-26. Review of ISF methodology may result in a change in the 2025-26 mid-year budget.

		<p>General Liability Insurance Fund expenses. The primary drivers in the Workers' Comp Internal Service Fund expenses are the claim experience and the insurance premium. While no change appears warranted, staff will be conducting a review of the ISF in 2025-26 to verify its allocation methodology.</p> <p>Staff are evaluating the possibility of switching to a different insurance provider to reduce the premium cost. Potential savings will be utilized in FY 2026-27.</p>	
Reserves			
Pension Trust Reserve	Utilize some of the pension trust to cover shortfall in order to not utilize unassigned fund balance.	Staff disagree with utilizing the pension reserve in lieu of the unassigned fund balance.	There is no change to the FY 2025-26 Proposed Budget.
Other			
General Fund Policy	Update criteria defining contribution to the Town's catastrophic and uncertainty reserves to reflect total expenditures in the General Fund and not just the Operating Expenditures Line item.	Staff agree with this correction.	No change to financials.

Finance Commission Recommendations on Proposed Operating Budget

On April 28, 2025, the Finance Commission reviewed the budget and provided three recommendations approved by unanimous vote. We highlight the three recommendations and staff's perspective on each area.

Motion 1:

The Finance Commission make the following recommendations to the Town Council:

- Avoid drawing on reserves unless absolutely necessary; balance the budget to zero or as close to zero as feasible; and implement a targeted hiring freeze until a comprehensive five-year financial forecast is completed. The Commission further recommends engaging an external financial consultant to assist in identifying opportunities to increase revenues and reduce expenditures.
 - **Staff Response:** We understand the desire to structurally balance the budget in one year. However, it is important to ensure the Town does not cut activity only to end up with surpluses. Further, the Town must do more to analyze its financial condition and outlook while also taking opportunities to create efficiencies. The reserve balances allow the Town some time to make meaningful movement in these areas.
- Explore ways to reduce Workers' Compensation and Liability Insurance costs, implementing safety and wellness programs aimed at reducing workplace injuries, and developing a comprehensive labor model to define service level targets and staffing needs. To enhance revenue, the Commission recommends evaluating options to increase sales tax revenue, including contributions from underrepresented sectors such as auto dealerships; reviewing Planning and Building Fees to ensure all potential adjustments are considered; reviewing the Business License Tax, particularly for businesses currently capped at \$3,000; and reassessing interest income projections to determine the feasibility of recovering up to an additional \$700,000.
 - **Staff Response:** The Town will be exploring opportunities to reduce liability and workers compensation costs. In terms of a comprehensive labor model, the Town's new Enterprise Resource Planning system may assist in this effort, but more analysis is necessary before proceeding. The spreadsheet above includes the Town's response to the specific revenue and expenditure items recommended by the Commission. We thank them for their input, but we were not always able to take their recommendations.
- On the expenditure side, the Commission recommends reviewing CalPERS and Internal Service Fund (ISF) costs, with formal recommendations to follow as appropriate. The Commission also recommends that staff evaluate the Town's fleet of over 80 vehicles and construction equipment for potential liquidation and cost savings, and consider leasing where feasible to reduce ongoing maintenance costs.

- **Staff Response:** The Town will look at the vehicle fleet and policy to determine opportunities to reduce or right size. Additionally, the fleet, as well as other internal functions, so by extension, we will be addressing the Internal Service Fund costs recommended by the Commission.
- Additionally, the Commission recommends approving the use of 100% of Measure G funds for operational expenses, in place of the prior 50/50 split between operations and capital projects.
 - **Staff Response:** Staff agree and are recommending to the Town Council to authorize the use of 100% of Measure G funds for operational expenses.
- Finally, the Commission recommends that the Town Council evaluate and select from among the tiered budget reduction options to help meet the objective of eliminating or minimizing the use of reserves.
 - **Staff Response:** Staff partly agrees and is recommending the implementation of just over \$1 million in tier reductions.

Motion 2:

- The Finance Commission does not recommend approval of the Five-Year forecast and to wait until a new forecast is performed by an outside consultant.
 - **Staff Response:** Staff understand the Commissions reluctance to approve the forecast. Approval is not necessary as the item is a tool. Staff anticipate moving forward with a consultant who will prepare a financial condition analysis which includes a Five-Year forecast.

Motion 3:

In considering the capital improvement program, the Commission recommends the Town Council

- Require a time phased capital program which shows what staff believe will be spent in each year versus what is authorized,
- For project 9901 Street Repair and Resurfacing, the Town should tie street repair and resurfacing to a target Pavement Condition Index which is to be established by the Town Council, and
- For the Highway 17 bridge design project (818-0803 the Council should consider stopping continued progress on that project and schedule further conversation and determine how to best prioritize capital projects and funding in the future.
 - **Staff Response:** Staff are not opposed to some of the recommendations made. However, except for the last item related to the bridge design project, actions do not need to be taken at this point. Staff intends to continue

the conversation with the Finance Commission related to the CIP program, budgeting and how to ensure accountability for the projects and budgets. The following is additional information from staff related to the bridge design project.

Highway 17 Overcrossing Project

Per the table below, the total current project budget is \$4,457,880 of which the Town funded \$1,468,524. The total anticipated costs to complete design are \$3,856,135. Based on this, the estimated remaining project balance after design is complete would be \$601,745.

Staff has consulted with the Valley Transportation Authority (VTA) regarding the fate of Measure B funds in this project. At present the Town has received reimbursement of approximately 50% of the \$2,754,900 Measure B funding, or \$1,377,450. If the Town were to stop work and cancel the project VTA staff has confirmed that the Town would be expected to refund the reimbursed funds to VTA.

The latest concept estimate has a total project cost of \$29,000,000, inclusive of design. Staff is preparing an application for the federal SS4A grant (assuming Town Council does not direct staff to cease all work on the project), which would require a 20% match of \$5,800,000. Because all design funding sources currently in play (\$4,457,880) would qualify as local match for a federal construction grant, the total remaining local match would be \$1,342,120. That amount could come from any local, County, or State funding source, including Measure B. Since VTA has already allocated Measure B funds to the project we expect they would be supportive of additional construction funding.