



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 05/20/2025

ITEM NO: 17

DATE: May 13, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: Conduct a Public Hearing on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year 2025-26 and on the Proposed Capital Improvement Program for FY 2025-26 – FY 2029-30

RECOMMENDATION:

Staff recommends the Town Council conduct a public hearing on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year (FY) 2025-26 and on the Proposed Capital Improvement Program for FY 2025-26 – FY 2029-30 and further recommends the Town Council

- a. Affirm the Finance Commission's recommendation and direct the use of all Measure G proceeds for operational expenditures;
- b. Provide Direction on the Proposed Operating Budget and accept the list of \$1.07 million in expenditure reductions for implementation in the 2025-26 proposed budget;
- c. Provide Direction on the Proposed Capital Budget and to establish a Tiered CIP program and to accept the Tier 1 projects in the 2025-26 Capital Improvement Program; and
- d. Approve the FY 2025-26 List of Potential Donations Consistent with the Town's Donation Policy.

FISCAL IMPACT:

Net Deficit Spending of about \$700,000 balanced by the use of Unassigned Fund Balance.

Under State law, the Town Council is required to enact a balanced budget. The recommendation would result in a reduction of the Proposed Operating Budget of \$1.07 million and would use all Measure G sales tax proceeds for operational use.

PREPARED BY: Gitta Ungvari
Finance Director

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

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.
- **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 2025-2027. This included prioritizing emergency preparedness, particularly with regard to wildfire risks, ensuring prudent financial management, and preserving the community's unique small-town charm. 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 conditions, addressing ongoing structural budget deficits, and projecting the revenue and expenditure needs from future development. While the Town staff prepare a forecast annually for the budget, the purpose of an external forecast and analysis is to enhance confidence in information which will guide the Town over the next few years of challenging financial conditions.

In accordance with Los Gatos Town Code Section 2.50.225(a)(2), the Finance Commission received the Proposed Budgets on April 21, 2025, at least 20 business days before May 20,

2025, the first meeting at which the Town Council will consider the Proposed Budgets. On April 21, 2025, the Proposed FY 2025-26 Operating and Capital Budgets were posted to the Town's website, and the links (listed below) were provided to the Finance Commission and to the Town Council.

Proposed Operating Budget:

<https://www.losgatosca.gov/2987/Proposed-FY-2025-26-Operating-Budget>

CIP Budget:

<https://www.losgatosca.gov/2988/Proposed-FY-2025-26-Capital-Budget>

On April 22, 2025, the Town Council held a budget study session to provide direction to the Finance Commission for their review of the Proposed Budget, including budget-balancing approaches (**Attachments 3 and 4** – staff reports for budget and Capital Improvement Program). One of the budget-balancing strategies proposed was to utilize the entire Measure G sales tax proceeds for public safety operations rather than a split between 50% operations and 50% being reserved for future capital, an allowable use under the general sales tax measure. Additionally, another approach recommended is the consideration of tiered reductions prepared by the Town's executive team. Further, the Town Council wanted the Finance Commission to review the appropriateness of the five-year forecast.

On April 28, 2025, May 5, 2025, and May 12, 2025, the Finance Commission met and discussed the five-year forecast, budget revenues, expenditures and capital projects. Staff worked with the Finance Commission to refine assumptions and estimates in the five-year forecast and to advise on the budget. At their May 12, 2025 meeting, the Finance Commission made three motions for the Town Council's consideration.

<p>While this staff report provides responses to the Finance Commission's recommendations, Attachment 1 is where staff speak to Finance Commission recommendations.</p>
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Today's meeting is intended to seek direction from the Town Council to consider the recommendations of the Finance Commission, including direction on Measure G usage; provide direction on the proposed operating budget including balancing the budget; provide direction on the proposed capital budget; and to approve the FY 2025-26 List of Potential Donations Consistent with the Town's Donation Policy.

DISCUSSION:

The FY 2025-26 Proposed Budget, published on April 21, 2025, included \$58.1 million in General Fund revenue and \$61.4 million in General Fund expenditures, resulting in a projected operational deficit of approximately \$3.7 million. The focus is on General Fund instead of all

funds as the General Fund and respective fund balances represent the majority of the resources used for the Town.

The Town Council provided input and direction during its discussion on April 22, 2025 with emphasis on the Finance Commission reviewing and advising on the Five-Year projection and giving guidance to the extent to which the Town should use reserves to balance potential reductions in the budget.

Attachment 1 provides a breakdown of the 2025-26 operating budget recommendations from the Finance Commission, staff's response to each, and the net effect in the proposed budget for the changes accepted by staff.

In response to Finance Commission recommendations, staff re-evaluated assumptions and the revenue and expenditures sources. As a result of this review, the following adjustments are accepted to the proposed budget:

- Increased Property Tax revenue by \$200,000
- Increased Interest Income revenue by \$180,000
- Increased Planning Permit revenue by \$15,000
- Increased Business License revenue by \$50,000
- Reduced anticipated CalPERS benefits expenditures by \$255,000

In addition to the accepted Finance Commission items above, staff identified the following changes due to new information since the initial budget development:

- Increased Licenses and Permit revenue by \$668,000 due to increases in encroachment fees assessed by the solid waste joint powers authority.
- Increased Sales Tax Revenue by \$163,000 based on updated sales tax estimates for the most recent quarter from the Town's Sales Tax consultant.
- Increased License and Permit revenue by \$360,000 based on the updated Town's Fee Schedule approved by Council on May 6, 2025.

All of the above changes have been incorporated into the updated Five-Year Forecast (**Attachment 2**, page 3) and FY 2025-26 Proposed Budget, increasing revenue by \$1,636,000 and reducing expenses by \$255,000. It should be noted that the forecast and proposed budget do not include all the recommendations of the Finance Commission where staff did not accept or agree with the recommendation. We address each area recommended by the Finance Commission in **Attachment 1**.

<p>With these changes, the anticipated deficit projected for 2025-26 Operating Budget is being reduced to \$1.8 million.</p>

Impact of Changes in Projected Deficit to Fund Balances

Typically, revenues minus expenditures and any respective transfers in and out of the General Fund result in a net increase to the bottom line of the fund, called the fund balance. Think of the fund balance like a savings account where the money carries over year to year like your typical bank account. The money that goes into this savings account, revenue, increases what we have to spend, and the bills and activity we spend money on, expenditures, goes out from the savings account. We also transfer money in from other sources, like gas tax which reimburses the Town for its roadway activity, or to support other funds that pay for activity that need additional funds.

When we put all this together, we then get a bottom line surplus, or as is the case for 2025-26, a deficit. A surplus grows our savings account balance, while a deficit reduces the balance. As a result, we see a reduction in the General Fund balance, or in other words our savings account. The following table shows this in practice with our projected 2025-26 year.

The table below shows how the changes in the bottom line fund balance occur and where the numbers change. In this table, we see the five fund categories – nonspendable, restricted, committee, assigned, and unassigned. The blue highlighted number is the rough deficit that requires the use of the fund balance. The two purple numbers are our stabilization and catastrophic reserves, which are our minimal emergency funds, and the grey line which shows the beginning and ending balances projected for the 2025-26 year.

General Fund					
Estimated Fund Balance Activity FY 2025-26 (Updated 5/14/2025)					
Use of / Addition to GF Reserves:	Estimated July 1, 2025 Balance	Revenues & Transfers In	Expenditures and Transfers Out	Fund Balance Sources (Uses)	Estimated June 30, 2026 Balance
Unreserved Fund Balances					
Undesignated Reserves					
Available to be Appropriated	\$ -	\$ 59,715,946	\$ 61,093,047	\$ 1,377,101	\$ -
Nonspendable					
Rehab Loan (Non - Spendable)	159,000				159,000
Restricted Fund Balances					
Pension Trust	2,878,659	-	-	390,000	3,268,659
Committed to:					
Budget Stabilization Reserve	7,959,645	-	-	-	7,959,645
Catastrophic Reserves	7,959,645	-	-	-	7,959,645
Pension/OPEB Reserve	1,000,000	-	-	-	1,000,000
Assigned to:					
Open Space Reserve	410,000	-	-	-	410,000
Sustainability	140,553	-	-	-	140,553
Capital/Special Projects	1,328,437	-	-	-	1,328,437
Authorized Carryforwards	85,861	-	-	-	85,861
Compensated Absences*	1,555,478	-	-	-	1,555,478
Market Fluctuations	1,712,246	-	-	-	1,712,246
Unassigned Fund Balance	4,000,000	-	-	(1,767,101)	2,232,899
Total Use of and Addition To Rese	\$ 29,189,524	\$ 59,715,946	\$ 61,093,047	\$ -	\$ 27,812,423
Minus					\$ 15,919,290
					\$ 11,893,133

The balances are estimates and will be finalized upon closing the FY 2024-25 and FY 2025-26.

In a nutshell, looking at the bottom left of this table, when we remove the purple emergency funds balances, we will end with \$12.9 million available for other uses and potentially available in the General Fund for future deficits. Clearly, as our Five-Year projection estimates deficits for each of the next four years, it will not be long before the Town may be forced into tough decisions impacting core services and the scope of services the Town provides.

For 2025-26, the Town executive team developed four tiers of reductions and revenue options for consideration to further reduce the deficit and impact on the fund balance.

Considering Budget Balance Options to Reduce the Operational Deficit

With the Finance Commission's recommendations and additional review by staff, the projected 2025-26 operational deficit was reduced from \$3.7 million to \$1.8 million. However, the

Finance Commission recommends that the Town Council reduce the deficit to zero or as near as reasonable.

The Town Manager recommends the Town Council consider a balanced approach to reducing the deficit and implementing reductions through the tiered reductions presented here. The rationale for this balance approach is as follows

- **Avoid Over Cutting** – It is beneficial to not overly cut in the case revenue and expenditure estimates are too conservative in which the Town cuts only to finish the year with a surplus;
- **Additional Analysis on Financial Outlook** – More work is necessary to refine the financial outlook, impact of development, and gain broad acceptance of the significant of future deficits over the next few years. This will include outside experts to assist the Town in performing such analysis; and
- **Opportunity for Planned Cost Reduction Measures** – Reserve balances give the Town some breathing room to continue efforts to streamline internally, seek contracts with lower total costs, and to implement other cost reduction measures on a timeline that allow for thoughtful planning.

To effectively address this challenge, Town staff provided expenditure reduction and revenue enhancement options to the Council on April 22, 2025, that can be found in Attachment 3.

Expenditure Reduction Options

After hearing the input from the Town Council and the Finance Commission, staff reviewed the deficit reduction options and recommend implementing the following reductions, totaling approximately \$1.07 million in savings:

- **All Tier 1 reductions**, with one change to reallocate \$5,000 to fund the bulk purchase of giveaway items. Staff will seek and consider commissioner input on the bulk items to purchase. This will save an estimated \$295,000 in the proposed budget.
 - 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.
- **Tier 2 Reductions** (\$355,000 estimated 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.
 - Reduce Hotel Program funding to \$20,000 (approx. \$8,700 savings)
 - Reduce part-time emergency coordinator hours (approx. \$18,000 savings)
 - Reduce outside legal services (approx. \$110,000)

- Remove decorative tree wrap lighting downtown (approx. \$68,000)
 - Remove doggie bags in parks (approx. \$10,000)
 - Reduce Library offerings including streaming media, e-resource databases and e-magazines. *Due to the timing of contracts, these reductions have already been implemented* (approx. \$50,000 savings).
 - Reduce Library printed quarterly programs/brochures and the number of media and book additions and replacements in the Library's collection (approx. \$34,000 savings).
 - Reduce memberships and other operational reductions (approx. \$56,000).
 - In addition, while it is a savings that requires renegotiation and cannot be included in the budget at this time, staff plan to revisit the amount the Town contributes toward utility payments on behalf of third parties for inclusion in future budgets.
- Tier 3 Reductions (\$160,000 estimated savings):
 - Reorganize the Community Police Complaints process (approx. \$60,000 savings).
 - Reduce block pruning and tree management by 50% (approx. \$100,000 savings). Staff will consider options, if any, for the community to supplement the reduced tree trimming.

Staff recommend the Town Council accept the list of \$1.07 million in expenditure reductions for implementation in the 2025-26 proposed budget. The anticipated 2025-26 operational deficit will be reduced from \$1.8 million to approximately \$0.7 million, some of which will likely be improved throughout the year with additional reductions, efficiencies, and revenue options.

The Council may choose to use reserves to cover the remaining \$0.7 million or increase expenditure reductions. The Finance Commission recommended avoiding the use of reserves unless necessary.

Revenue Options

As discussed previously, several revenue adjustments were included in the proposed budget after hearing input from the Finance Commission. In addition, staff plan to pursue revenue enhancement options including revenue audits, reducing subsidies, and exploring new revenues as opportunities present themselves.

During initial discussions of the budget, the executive team provided a list of revenue options for consideration with the tiered expenditure reductions. The following table shows the options included in the Council's April 22, 2025 agenda package.

	Short-term	Medium-term	Grand Total ^[u]
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

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

While several revenue options may be included in the proposed budget, these options are not all currently incorporated into the proposed budget due to their uncertainty.

If there are any options that Council does not want explored, please inform staff during this discussion; otherwise, staff will return for Council input at the appropriate time. Of note, if a sales tax or parcel tax measure is pursued, work would need to begin in FY 2025-26 in order to be placed on the November 2026 ballot. Staff hopes to have the Fiscal Condition Analysis and Five-Year Projection Study to inform whether a revenue measure is needed and will return to Council for direction when appropriate.

Other Measures – Efficiencies and Innovation

Reducing expenses and increasing revenues are not the only options necessary to address structure imbalances within the Town. The Town needs to look to gain efficiency, leverage

technology, and invest in efforts that return more through economic development and innovation.

The Finance Commission recommended staff review the Town fleet to right-size vehicles and equipment as well as to look towards improving workers' compensation experience. Reductions in this area translate into reductions in internal service charges which are charged back to departments in their operating budgets.

The Town will be looking at the Town's general liability and workers compensation programs to reduce ongoing expenditures and liability.

Considering Tiered Capital Improvement Program

Town staff develop a five-year Capital Improvement Program (CIP) each year for review and adoption by the Town Council. The CIP document defines projects that were closed in the prior fiscal year, proposes new projects as needed, and allocates funding across various projects and programs.

The proposed five-year CIP reflects \$1.8 million in ongoing annual Gas Tax dedicated sources to help fund the proposed FY 2025-26 \$6.7 million capital improvements. The balance of CIP funding of \$4.9 million is funded by one-time appropriations from the General Fund Appropriated Reserve (GFAR), Utility Undergrounding Funds, Traffic Mitigation Funds, Grant Funds, and Storm Drain Funds.

In considering funding priorities for the CIP, staff follows the guidance provided by various Town documents, including: [Council Strategic Priorities](#), [General Plan](#), [Bicycle and Pedestrian Master Plan](#), Pavement Management Program, Stormwater Master Plan, Facilities Condition Assessments, the ADA Transition Plan, and legislative mandates. Project ideas and needs are also identified from field observations by Town staff, input from residents, and ideas from Town Commissions.

With this proposed CIP budget, significant changes to funding and project priorities are proposed. These changes are made in recognition of the large carryforward that has existed in prior fiscal years and the limited staffing resources available to deliver capital projects.

Regarding funding, the Measure G transfer to the General Fund Appropriated Reserve (GFAR) was eliminated in this project budget. All Measure G funds were retained in the General Fund to support General Fund operations.

Staff recommend the Town Council affirm the Finance Commission's recommendation and direct the use of all Measure G proceeds for operational expenditures.

Staff closed and consolidated projects where possible. Details of these projects are provided in the Introduction section of the CIP document. The remaining projects were then categorized as Tier 1 or Tier 2 (**Attachment 4**, Page 11). Tier 1 projects are those that are fully funded, include funding with a grant deadline, are ready for construction, or are legally required. These projects will be a staff priority for delivery in 2025-26. Tier 2 projects are other projects that have had CIP funding in prior years, but are either not fully funded, cannot be supported with current staffing, or both. By taking this action, this CIP presents a more realistic picture of project priorities and of projected capital expenses in the next fiscal year.

If staff resources allow a Tier 2 project to move forward, then Town Council action will be sought to release the required funding to continue the project. Other capital needs that have been identified but not funded are included as an appendix to the CIP document. These are called Tier 3 projects (**Attachment 4**, Page 13), and no funding or staff have been allocated to these at this time.

The report provided to the April 22, 2025 Council Budget Study Session with additional information can be found in **Attachment 4** of this Staff Report.

On May 14, 2025, the Planning Commission reviewed the proposed CIP, found it consistent with the General Plan, and recommended its adoption by the Town Council.

Staff recommends the Town Council approve the direction to establish a Tiered CIP program and to accept the Tier 1 projects in the 2025-26 Capital Improvement Program.

Council direction regarding the Proposed Operating and/or Capital Budgets provided at the May 20, 2025 budget hearing will be incorporated into an implementing resolution to be presented for final Council approval on June 3, 2025.

Donation Opportunities - FY 2025-26 List of Town Needs

As part of the budget development process, the List of Town Needs is updated annually per Town Council Donation Policy (**Attachment 5**) to reflect goods, services, and other contributions that would help enhance Town services, programs, and events (**Attachment 6**).

Staff recommends the Town Council approve the list of Town Needs for donations.

CONCLUSION AND NEXT STEPS:

At its May 20, 2025 meeting, the Council will have an opportunity to listen to public testimony, ask questions, consider the Finance Commission's recommendations, deliberate, and direct changes to the Proposed Operating and/or Capital Improvement Program Budgets. Any changes to the Proposed Operating and/or Capital Budgets directed by Council will be included

for Council consideration in the resolution formally adopting the Budgets to be considered by Council on June 3, 2025.

During and after the Budget adoption, staff continues to monitor revenues and expenditures closely and will report to the Town Council actual revenues and expenditures later in the year as the data become available. Any modifications needed will be brought back to the Council as Budget Adjustments.

Public comments provided received Before 11 a.m. on May 16, 2025 are included in **Attachment 7**.

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments. The Finance Commission deliberated and provided its recommendations to the Council as discussed in this report.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachments:

1. Finance Commission Identified Areas for Review in the Five-Year Forecast
2. Forecast History including the Updated Forecast
3. Budget Study Session – Deficit Reduction Staff Report
4. Budget Study Session – Capital Improvement Program Staff Report
5. Town of Los Gatos Donation Policy
6. Town of Los Gatos Donation Opportunities: FY 2025-26
7. Public Comment Received Before 11 a.m. on May 16, 2025