



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 06/03/2025

ITEM NO:7

DATE: May 28, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: Adopt a Resolution Approving the Town of Los Gatos Fiscal Year (FY) 2025-26 Operating Budget and FY 2025-26 – 2029-30 Capital Improvement Program (CIP); Adopt a Resolution Approving Commitment of Fund Balances under GASB 54; and Approve FY 2024-25 Budget Adjustments and Reclassifications

RECOMMENDATION:

Operating and Capital Budgets

- a. Adopt a Resolution Approving the Town of Los Gatos Fiscal Year (FY) 2025-26 Operating Budget and FY 2025-26–2029-30 Capital Improvement Program (CIP), including new appropriations, minor corrections, and carry-forward appropriations, as presented in Attachment 1 (with Exhibit A: Total Town Revenues and Expenditures by Fund);
- b. Adopt a Resolution Approving Commitments of Fund Balances under GASB 54, as presented in Attachment 2; and
- c. Approve FY 2024-25 Year-End Budget Adjustments and Reclassifications as listed in Attachment 3.

FISCAL IMPACT:

The fiscal impacts of these actions are summarized in the Financial Summaries (Attachment 4), resulting in a balanced FY 2025-26 budget; however, balancing the budget required the use of fund balances and reserves. All proposed adjustments, reclassifications, and fund balance allocations are reflected in the attached resolutions and budget schedules. Further discussion is provided at the end of the staff report and in the FY 2025-26 Financial Summaries found in Attachment 4.

BACKGROUND:

On April 21, 2025, the Proposed FY 2025-26 Operating and Capital Budgets were posted to the Town's website. Per Measure A, the Finance Commission received the Proposed Budgets 21

PREPARED BY: Gitta Ungvari
Finance Director

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

PAGE 2 OF 4

SUBJECT: Operating and Capital Budgets

DATE: May 28, 2025

business days before May 20, 2025, which is the first meeting at which the Town Council considered the Proposed Budgets.

The original documents can be viewed at the following link>

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>

The Finance Commission held three public meetings at which Commissioners discussed the Proposed Budgets and provided recommendations to the Town Council per Measures A and G.

On May 20, 2025, the Town Council conducted public hearings to discuss the proposed FY 2025-26 Operating and Capital Summary Budget and Proposed FY 2025-26– 2029-30 Capital Improvement Program. The Town Council considered public testimony, discussed both documents, considered the Finance Commission recommendations, and directed staff to bring back the documents for final approval incorporating the Council recommendations.

DISCUSSION:

The draft resolution (Attachment 1) incorporates the budget direction provided by the Council at the May 20, 2025, budget hearing.

As part of that direction, the Council approved establishing a General Fund Unassigned Fund Balance in the amount of \$4,000,000 as of June 30, 2025. This fund balance will include the residual balances from the Education Realignment Augmentation Fund (ERAF) Risk Reserve, the residual Measure G Fund Reserve, and portions of the Capital/Special Project Fund Reserve. Of this balance, it is anticipated that \$905,060 will be used to balance the FY 2025-26 budget, consistent with the proposed budget and Attachment 2 (GASB 54 Commitment Resolution). The fund balance allocations and reclassifications are detailed in both Attachment 2 and the Financial Summaries in Attachment 4.

In anticipation of the end of the FY 2024-25 fiscal year, the Council is being asked to approve several revenue and expenditure budget adjustments, as listed in Attachment 3. These year-end adjustments reflect revised estimates and operational impacts that have occurred since the Mid-Year Review in February and are necessary to ensure the FY 2024-25 budget reflects actual financial activity.

The FY 2024-25 adopted budget included a 4.6% position vacancy savings assumption for salaries and benefits with the understanding that all vacant positions would be eventually filled through recruitment. However, recent estimates show that some departments and programs are fully staffed will not realize the 4.6% budgeted salary savings. Staff is therefore requesting that Council approve salary and expenditure budget adjustments, as needed, up to the amount of the projected 4.6% vacancy savings for individual department and programs, based on year-end actual expenditures.

Staff is also requesting an expenditure budget increase to cover additional costs incurred due to protective leaves (e.g., workers' compensation leaves). In addition, Attachment 3 lists the salary and benefit reclassification from the General Fund to Capital Projects to recognize the utilization of temporary staff for capital projects.

During FY 2024-25, the Council authorized a \$1,000,000 allocation for Emergency Management Services. Of this amount, approximately \$100,000 is expected to be spent by year end. Staff is requesting that the remaining unspent balance, estimated to be approximately \$900,000, be carried forward and appropriated for Emergency Management Services in FY 2025-26. The actual carryforward amount will be determined at the close of the fiscal year and reflected in the FY 2025-26 budget.

Outlook

While the Town's Operating Funds budget is legally balanced through the planned use of reserves, the Town is not structurally balanced, as ongoing revenues are insufficient to fully support ongoing expenditures. For FY 2025-26, the gap between recurring General Fund revenues and expenditures is being closed by applying a 4.6% vacancy savings factor and utilizing \$905,060 from the General Fund Unassigned Fund Balance. As a result, the General Fund Unassigned Fund Balance is projected to decrease from \$4.0 million at the beginning of the fiscal year to approximately \$3.1 million at year-end. Further, the Town's Internal Service Fund, which services other Town-wide activity such as general liability, workers' compensation, technology, vehicle replacement, etc., continues to utilize reserve fund balance to support activity.

This continued reliance on reserves is not sustainable over the long term. As the Town continues its efforts to address this structural deficit, it must be mindful that it cannot continue to support the current level of operational investment without either identifying new ongoing revenue sources or reducing programs and services to bring expenditures in line with recurring revenues. The Town Council and staff remain committed to a strategy of proactive fiscal management, regularly reviewing revenues, expenditures, and reserve levels, and making strategic adjustments to ensure the Town's long-term fiscal health.

PAGE 4 OF 4

SUBJECT: Operating and Capital Budgets

DATE: May 28, 2025

Additional detail and multi-year trends for all funds, including a five-year history of revenues, expenditures, and fund balances, are provided in Attachment 4: FY 2025-26 Financial Summaries.

CONCLUSION:

Staff recommends the Council adopt a Resolution approving the Town of Los Gatos Fiscal Year (FY) 2025-26 Operating Budget and FY 2025-26 to 2029-30 Capital Improvement Program (CIP)(Attachment 1), adopt a Resolution approving commitment of Fund Balances under GASB 54 (Attachment 2), and approve the FY 2024-25 budget adjustments (Attachment 3).

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. Resolution of the Town Council Approving FY 2025-26 Operating Budget and FY 2025-26–2029-30 Capital Improvement Program (Attachment 1), including Exhibit A: Total Town Revenues and Expenditures by Fund
2. Resolution of the Town Council of the Town of Los Gatos Approving Commitments of Fund Balance under GASB 54
3. FY 2024-25 Year-End Budget Adjustments and Reclassifications
4. FY 2025-26 Financial Summaries
5. Public Comments