



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/12/2025

ITEM NO: 5

DATE: May 8, 2025
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Provide Recommendations to the Town Council Regarding the Proposed FY 2025-26 Operating and Capital Budgets, Including Budget Balancing Approaches

RECOMMENDATION:

Staff recommend the Finance Commission:

- Provide recommendations to the Town Council regarding the Proposed FY 2025-26 Operating and Capital Budgets, including budget balancing approaches and changes to the five-year forecast.
- Recommend use of all 2025-26 Measure G funding for Public Safety operations.

BACKGROUND:

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties, states that:

(a) The Finance Commission shall:

(2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code and provide written comments and recommendations to the Town Council.

(A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

approval of the budget conditional upon the Town Council's acceptance of one or more of the Finance Commission's recommendations.

- (B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

DISCUSSION:

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. Per Measure A, the Finance Commission received the Proposed Budgets 21 business days before May 20, 2025, the first meeting at which the Town Council will consider the Proposed Budgets.

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, a Town Budget Study session was held where the Town Council discussed direction on the preparation of the budget and potential direction to the Finance Commission for their review of the Proposed Budget, including the budget-balancing approaches. One of the budget-balancing strategies proposed is to use the entire Measure G Proceeds for public safety operations rather than a split between 50% operations and 50% being reserved for future capital, as well as tiered reductions prepared by the Town's executive team.

The Council discussed how prior-year financial projections vary from actual revenues and expenditures at year-end closure and the desire to understand the Town's shorter-term and longer-range financial condition. Staff recommended hiring an independent outside consultant and started discussing the scope of such a study with the Finance Commission earlier this month. Council members also commented on the different tiers of the budget-balancing solutions that were presented to them.

All the information presented in the Council Budget Study Session was included in the April 28, 2025, Finance Commission Reports. The Finance Commission also received additional materials. The April 28, 2025, meeting information can be found using the following link:

<https://www.losgatosca.gov/DocumentCenter/View/42076/April-28-Finance-Commission-Agenda-Packet-with-Addendum-and-Desk-Items>

At its special meeting on April 28, 2025, the Finance Commission started discussing and identifying comments and recommendations to the Town Council regarding the Proposed

Budgets. During the meeting, staff presented the Operating and Capital budgets and answered the Commissioners' questions.

At its special meeting on May 5, 2025, the Finance Commission recommended increasing certain revenues and decreasing certain expenditures in the FY 2025-26 Proposed Budget and Forecast. Staff provided preliminary feedback and responded to the Commissioners' questions. The Commission discussed the cost savings and budget impacts associated with Tiers 1 through 4 of the proposed expenditure reductions. It also discussed the potential budget impacts of the three revenue recovery categories: revenue Audit, Subsidy Reduction, and New Revenue.

The May 5, 2025, meeting information can be found using the following link:

<https://www.losgatosca.gov/DocumentCenter/View/42151/May-5-Finance-Commission-Agenda-Packet-with-Desk-Item>

Attachment 1 includes staff's evaluation of the Finance Commission identified areas for review of the Five-Year Forecast.

Based on the Commission's and staff recommendations on the 2025-26 proposed budget, staff estimate \$1,454,650 million in additional revenues and \$255,000 expenditure savings, reducing the projected deficit from \$3.7 million to \$2 million. At the April 28, 2025 Finance Commission meeting, the chair identified a number of potential reductions that were provide as options which based on the potential of achieving identified savings would amount to a potential \$851,000 in additional reduction of the no \$2 million deficit. If this is taken as is, the Town would project utilizing about \$1.2 million from unassigned fund balance to close the 2025-26 budget.

Staff is seeking input from the Finance Commission on how much to rely on reserves versus other budget-balancing solutions in the FY 2025–26 budget. It would be beneficial for the Finance Commission to review the financial foundation of the budget, including the revenue and expenditure assumptions, and evaluate them with respect to the prior year's actuals and current estimates.

Pursuant to Municipal Code Section 2.50.225(6), the Finance Commission shall review proposed expenditures and advise the Town Council whether such expenditures meet the Town Council's objective for the Measure G tax. One proposed budget-balancing strategy is allocating all Measure G proceeds to support public safety operations. This approach supports the following Measure G objectives: (a) maintaining and enhancing neighborhood police patrols and local crime prevention programs, and (d) maintaining the Town's long-term financial stability. Staff requests the Finance Commission's review and recommendation regarding the proposed allocation of Measure G funds.

PAGE 4 OF 4

SUBJECT: Proposed FY 2025-26 Operating and Capital Budgets

DATE: May 8, 2025

The Finance Commission is scheduled to complete its recommendations on the Budget at its regular meeting on May 12, 2025. The Commission's final comments and recommendations will be transmitted the Town Council for its May 20, 2025 public hearing on the FY 2025-26 Proposed Operating and Capital Budgets.

A Council and Finance Commission Joint Study Session meeting, led by the Government Finance Officers Association (GFOA) experts, is scheduled for May 19, 2025, to provide Local Government Financial Management Training in budgeting and financial reporting.

CONCLUSION:

Staff looks forward to the Commission's questions, discussion, comments, and recommendations.

Attachments:

1. Finance Commission Identified Areas for Review in Five-Year Forecast