



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 12/16/2025

ITEM NO: 7

DATE: December 9, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: **Receive Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2025, and Adopt a Resolution Confirming June 30, 2025 Fund Balances in Accordance With Fiscal Year 2024-25 Final Audit and Town Council General Fund Reserve Policy**

RECOMMENDATION: Receive the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2025, as recommended by the Finance Commission, and adopt a Resolution Confirming June 30, 2025, Fund Balances in Accordance with Fiscal Year 2024-25 Final Audit and Town Council General Fund Reserve Policy.

FISCAL IMPACT:

There is no fiscal impact associated with receiving this report.

STRATEGIC PRIORITY:

This item is not associated with a strategic priority.

BACKGROUND:

The Town contracts with an independent certified public accountant to examine the books, records, inventories, and reports of all officers and employees who receive, handle, or disburse public funds each fiscal year (FY). The FY 2024-25 audit was performed by Chavan and Associates, LLP, an experienced firm specializing in audit services for California public agencies. The firm also assisted with the Draft ACFR for the Town of Los Gatos.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager and Town Attorney

The information contained in the ACFR provides detailed financial information that the Los Gatos community and others can use to better understand the Town's fiscal standing. In addition, the financial information contained in the document is one element that the credit rating agencies review annually to affix a credit rating to the Town's outstanding debt obligations.

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 state that:

(a) The Finance Commission shall:

(3) Review the Town Manager's draft Annual Comprehensive Financial Report (ACFR) for the preceding fiscal year and provide written comments and recommendations to the Town Manager.

(A) The Town Manager shall respond in writing to the Finance Commission providing his or her rationale for accepting or rejecting each of the Finance Commission's comments and recommendations prior to presenting the ACFR to the Town Council for formal consideration.

(B) The Town Manager may not present the ACFR to the Town Council for formal consideration unless or until he or she considers and responds in writing to all of the Finance Commission's comments and recommendations.

DISCUSSION:

On November 25, 2025, the Draft FY 2024-25 Annual Comprehensive Financial Report (ACFR) was posted to the Town's website, and a link was provided to the Finance Commission.

Finance Commissioners were given the opportunity to submit written questions to staff. Questions and comments received from Commissioners by 11:00 a.m. on December 1, 2025, were compiled into Desk Items for the December 1 Special Finance Commission meeting.

At the Finance Commission meetings on December 1, 2025, and December 8, 2025, the Town's independent auditor and staff addressed the Commissioners' questions and comments, which are included in Attachment 4.

The Finance Commission concluded its review of the draft ACFR and unanimously recommended that the Town Council receive the Annual Comprehensive Financial Report (ACFR) for the Fiscal Year Ended June 30, 2025, with recommended modifications (see Attachment 3 for redlined version).

Additionally, staff thoroughly reviewed all financial and statistical schedules to ensure that data and footnotes are accurately displayed throughout the current document across fiscal years and prior ACFRs.

Independent Auditor's Report

The auditor has given the Town's financial statements a "clean" audit opinion for the year ended June 30, 2025, giving reasonable assurance that the financial statements are "free of material misstatement" (Attachment 1).

Purpose of the Budget and Annual Comprehensive Financial Report

Our Town's budget is more than just numbers, it is a plan that ensures we use our resources efficiently and effectively, prioritizing our most important goals. Through this budget, the Town Council shapes our community's direction and priorities by allocating financial resources. The Annual Comprehensive Financial Report reflects the activities and financial condition of the previous year, serving as an essential document for residents, taxpayers, and other stakeholders to assess the Town's financial standing. While both documents are critical, they do not provide the complete picture of the financial or operational reality of the Town.

Forecasting Our Finances

The FY 2025-26 budget projections are based on economic trends and forecasts specific to the Town's geographic area. These estimates, informed by local data from the County of Santa Clara and consultants such as Avenu Insights & Analytics and HdL Coren & Cone, help predict revenue from sources like taxes and government grants. Expenditures are carefully reviewed by departments and the Finance Department and are incorporated into the budget with a vacancy savings factor of 4.6%, reflecting the Town's historical trend of not fully expending predicted salaries and benefit costs.

Overall, the Town is financially stable and secure for the foreseeable future. During the FY 2024-25 fiscal year, the Town-wide Statement of Activities reported an increase in net position of \$7.3 million, a measure of the change in the value of assets impacted by Town operations during the year. This net position includes \$3.8 million from investment earnings, driven by higher than usual interest rates. It also includes \$1.2 million unrealized gains, which are not available to spend, due to the requirement to value current investments at market value as of June 30. Additionally, conservative budgeting and operations resulted in revenue exceeding budget estimates and expenditures coming in below projections, which contributed to this positive change.

This increase in net position reflects a broader trend, with seven of the last nine years showing positive net position growth. In the General Fund, the primary operating fund for Town operations, the available resources for the next fiscal year have also increased.

While encouraging, the increase in net position can be significantly influenced by market interest rate fluctuations, liability payments (including pension costs), and operational and capital expenditures. Additionally, accounting standards do not account for future capital costs beyond depreciation, meaning deferred capital needs, as well as needs to address wildfire risk, will substantially impact future financial performance. Further, the potential consolidation of

the police department's separate buildings is also not considered in the standards or the Town's Capital Improvement Program. Rising costs in key Town operations and contracted services also pose challenges that could outpace revenue growth. Despite our stable current position and financial cushion, maintaining this stability will require fiscal prudence and foresight to address future challenges.

Emerging Financial Challenges

Although we have experienced financial gains this year, we are facing significant cost pressures. Rising costs for basic services, including salaries, benefits, and contracting, are compounded by volatile pension costs, which have fluctuated in recent years. The competitive Silicon Valley market and increasing regulatory requirements on local governments also drive up the cost of services and materials.

A major concern is the lack of preparation to fully fund or quantify the liabilities and annualized costs for maintaining our infrastructure, such as roads, parks, and buildings. These deferred maintenance needs could add millions to future expenses. The cost per mile of infrastructure repair continues to rise, leading to tradeoffs between non-capital and capital priorities. While progress has been made in identifying some of our needs, the Town is quite a ways from achieving a sustainable investment to address its substantial capital liabilities. Further, the Town does not have identified resources to address a recommended police station consolidation, Town Hall replacement/rehabilitation, or to fully implement its various plans, such as the Bicycle and Pedestrian Master Plan or Senior Roadmap.

Additionally, the region's economy is heavily influenced by industries affected by geopolitical dynamics. These dynamics could impact employment, property, and transfer tax revenue, fees, occupancy taxes, and sales taxes, further adding uncertainty to the financial outlook. While the Town is benefiting today, an economic reversal can have the same negative impact.

Proactive Financial Strategies and Sustainable Financial Planning

It is essential for us to continuously monitor and evaluate our long-term financial sustainability, balancing major capital needs with the provision of essential services. Los Gatos is currently in a relatively good financial position, supported by significant reserves. However, we must remain vigilant and prepared to address rising operational and capital costs that could outpace revenue growth, as well as address future capital, wildfire, and other capital needs not currently scheduled in a five-year Capital Improvement Program. Our goal is to preserve the exceptional quality of life in our community through prudent and strategic financial management. To strengthen the Town's long-term financial sustainability and provide strategic insights to the Council, the Town is collaborating with an independent consultant to perform a Fiscal Condition Analysis, Fiscal Impact Analysis, and Asset-Liability Management Studies.

To achieve this, the Town must work to fully identify the true costs of basic operations as well as additional programs and services, comparing these costs to our capacity to sustain such activities over the long term. While our overall financial position is balanced, our focus must

shift to achieving a sustainably balanced budget that ensures efficient and effective delivery of services at a level supported by available resources. In considering the capital intensive needs of buildings, infrastructure, and disaster mitigation, a longer view of financial condition and outlook is necessary.

Key efforts in this direction should include:

- Establishing a shared understanding of our current and projected financial condition.
- Defining the basic and enhanced services provided to residents and businesses.
- Taking deliberate steps toward long-term financial sustainability.
- Identifying system and process improvements that reflect careful planning in how Town activities are delivered, ensuring accountability to those who fund these services.

These initiatives require a multi-year approach, and I am confident we can make meaningful progress in the years ahead.

Fund Balance Resolution

The Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance and Governmental Fund Type Definitions, requires that the Town Council of the Town of Los Gatos classify governmental fund balances as restricted, assigned, or committed fund balances with formal actions. Staff is requesting the Town Council adopt a resolution confirming June 30, 2025, Fund Balances in accordance with the FY 2024-25 Final Audit as listed in Attachment 2.

COORDINATION:

This report has been prepared in coordination with the Town Manager's Office and the Town Attorney's Office.

ENVIRONMENTAL ASSESSMENT:

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

ATTACHMENTS:

1. Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2025
2. Fund Balance Resolution Establishing June 30, 2025 Fund Balances
3. Redlined Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2025
4. Town Manager's Responses to Commissioners' Questions and Comments