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**To:** [Mary Badame](#); [Matthew Hudes](#); [Rob Rennie](#); [Maria Ristow](#); [Rob Moore](#); [REDACTED]; [Andrew Howard](#); [Ashby Monk](#); [Joseph Rodgers](#)  
**Cc:** [Laurel Prevetti](#); [Gitta Ungvari](#); [Gabrielle Whelan](#); [Wendy Wood](#)  
**Subject:** FY 2025 Operating Plan - June Town Council agenda item  
**Date:** Saturday, May 25, 2024 8:24:35 AM

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[EXTERNAL SENDER]

Dear Honorable Mayor and Council Members,

At last Tuesday's Council meeting the FY 2025 Operating and Capital Plans were reviewed and discussed.

Unfortunately, two important recommendations the Finance Commission made to the Town Council regarding the budget were not discussed.

Before the Council officially adopts the FY 2025, the Council should address the following recommendations.

### **First Recommendation**

The Finance Commission in their written recommendation to the Council pointed out there was a major risk embedded in the FY 2025 Operating Budget. Not all salaries and benefits increase for bargaining units whose successor MOUs are currently being negotiated have been reflected in the operating plan. The increases are material, highly likely to occur during FY 2025, and for which no funding source has been identified.

It would be inappropriate for the Town Council to approve an FY 2025 Operating Budget without disclosing the anticipated increase in MOU expenditures as well as the funding source to offset these increases. The Town is required by State Law to approve a “balanced budget” and such budget should include all highly likely expenditures that Town intends to incur during the fiscal year. Simply because the successor MOUs have not been approved is not a sufficient reason to exclude them from the FY 2025 Operating Budget. Please note that the transmittal letter from the Town Manager begins with the declaration that the FY 2025 General Fund Operating Budget is “balanced”.

### **Second Recommendation**

At the last Finance Commission meeting, the Commission review and discussed the actuarial presentation prepared by Foster and Foster. As part of that discussion the Commission approved a resolution for the Town Council’s consideration to make an ADP to Calpers using the entire balance of the Town’s 115 Pension Trust to pay down the longest negative bases (e.g., 2017 and 2018 Non-Asset Loss and 2016 Asset Loss) in the Town’s Safety Plan unfunded liability. For every \$1 million of ADP the Town will realize \$1,068,000 in interest savings (reference page 64 of the report) and results in the highest present value savings

to the Town.

Currently there is approximately \$2.1m in the 115 Pension Trust with an additional \$390k programmed contribution during FY 2025. The Commission found that using the entire balance of \$2.5m to immediately make an ADP is the highest and best use of these funds.

The Town Council should include the ADP recommendation as part of the FY 2025 Operating Plan.

One other important point the Town Council should consider regarding the FY 2025 Budget. At the next Council meeting, the Council will be adopting the FY 2025 Operating and Capital Budgets and will also consider adopting a resolution - "Approving Commitment of Fund Balances under GASB 54". While technical in nature, this is a very important resolution that requires careful consideration because proper classification of fund balance enhances the usefulness and transparency of the financial statements.

Unfortunately, the Finance Commission did not take up GASB 54 at our last meeting. However, there has been much discussion in the past by the Commission regarding the proper implementation of GASB 54 in reporting General

Fund balance and Staff is aware of these discussions. The Commission has specifically discussed the benefit of re-introducing an Unassigned Fund Balance to act as a “shock absorber” for unplanned expenditures. The Town in the past had an “unassigned fund balance” but for some reason chose to assign all fund balance other than restricted to either committed or assigned.

The Council should consider establishing an “unassigned” fund balance to provide more transparency regarding the **intended use of the fund balances**. Currently most unplanned expenditures have been funded from the assigned fund balance – Capital/Special projects. When funds were originally “assigned” to this category, they were done so for the intended use toward capital or special projects not to fund unplanned expenditures such as salary increases. This is not a best practice and should stop. By establishing an “unassigned” balance, the Town Council and the public will have more transparency regarding the availability of fund balance usage for unplanned expenditures.

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Thank you for your consideration.

Phil Koen

Chair of the Finance Commission