



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 05/21/2024

DATE: May 13, 2024

TO: Mayor and Town Council

FROM: Laurel Prevetti, Town Manager

SUBJECT: Conduct a Public Hearing on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year (FY) 2024/25 and on the Proposed Capital Improvement Program for FY 2024/25 – FY 2028/29

- a. Consider the Recommendations of the Finance Commission;
- b. Provide Direction on the Proposed Operating Budget;
- c. Provide Direction on the Proposed Capital Budget;
- d. Approve the FY 2024/25 List of Potential Donations Consistent with the Town's Donation Policy and
- e. Review and Approve the Town Investment Policy

**RECOMMENDATION:**

Staff recommends the Town Council conduct a public hearing regarding the Los Gatos Proposed Operating and Capital Budgets for Fiscal Year 2024/25 and the Town of Los Gatos Proposed Capital Improvement Program for Fiscal Years 2024/25- 2028/29, and take the following actions:

- a. Consider the recommendations of the Finance Commission (Attachment 4);
- b. Provide direction on the Proposed Operating Budget;
- c. Provide direction on the Proposed Capital Budget;
- d. Approve the FY 2024/25 List of Potential Donations consistent with the Town's Donation Policy (Attachment 8); and
- e. Review and approve the Town Investment Policy with no changes (Attachment 9)

**BACKGROUND:**

On April 22, 2024, the Proposed FY 2024/25 Operating and Capital Budgets were posted to the Town's website and the links were provided to the Town Council, Finance Commission, and the

**PREPARED BY:** Gitta Ungvari  
Finance Director

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

BACKGROUND (continued):

public. Hard copies of the documents were provided to Council members and Commissioners who requested them.

Per Measure A, the Finance Commission received the Proposed Budgets 21 business days before May 21, 2024, which is the first meeting at which the Proposed Budgets are scheduled to be considered by the Town Council.

The Proposed Operating and Capital Budget for FY 2024/25 (Attachment 1) is a comprehensive financial plan that reflects the values of the Town, Council priorities, and community expectations for high levels of municipal services provided by the Town of Los Gatos. The Proposed FY 2024/25 – 2028/29 Capital Improvement Program (Attachment 2) is a five-year capital improvement plan which identifies projects to construct and maintain the Town's infrastructure. The Transmittal Letters contained in both the Proposed Operating and Capital Budgets provide an overview of the recommendations for next fiscal year, including the fiscal outlook, key budget assumptions, and other information.

Both budget documents were prepared with contributions from all Town Departments. The Finance Department took the lead in developing revenue and expenditure forecasts, ensuring that the most current information was used in the preparation of the proposed budgets. In addition, the Department of Parks and Public Works identified high priority projects for inclusion in the Capital Budget based on input from the Town Council; familiarity with the Town's facilities, equipment, and infrastructure; and the Department's work with various Town Commissions on these assets.

In addition to the Proposed Budget documents, the Town Council is being asked to consider corrections and clarification based on additional review and analysis since publication (Attachment 3) as well as the Finance Commission recommendations contained in Attachment 4.

To help the Council work through the material, staff recommends that the Council discuss and make individual motions as appropriate on the following items as presented in this staff report:

- Finance Commission's recommendations;
- Any other direction on the Proposed FY 2024/25 Operating Budget;
- Any other direction on the Proposed FY 2024/25– 2028/29 Capital Budget;
- Consideration the Proposed Donation List; and
- Consideration of the Investment Policy.

Council direction regarding the Proposed Operating and/or Capital Budgets provided at the May 21, 2024` budget hearing will be incorporated into an implementing resolution to be presented for final Council approval on June 4, 2024.

DISCUSSION:

Overview of Proposed Operating Budget

The FY 2024/25 General Fund Budget of \$56.9 million maintains existing services with modest staffing adjustments and no new programs. This Budget also provides for limited, continued strategic investments toward important wildfire vegetation management as Federal grant funding allows and other necessary infrastructure improvements to protect our community's health and safety.

The Proposed FY 2024/25 Budget endeavors to maintain essential public services while controlling operational costs. The budget is "status quo" in that no additional services are proposed to be added or removed. Staff across the Town analyzed the details of all line items and provided justification for the costs with the same inflationary pressures being felt by private businesses and residents.

Even with areas of continued uncertainty, this Budget positions the organization well for continued excellence in service delivery to the community. In the event revenue growth rate does not strengthen, the current projected deficits may need to be addressed through service delivery reductions or other actions. If this occurs, the Council will need continued input from the community to identify acceptable organizational changes and service levels.

Summary of the Five-Year Forecast

The Five-Year Forecast takes a forward look at the Town's General Fund revenues and expenditures and is updated regularly. Its purpose is to identify financial trends, potential shortfalls, and other issues so the Town can proactively address them and budget accordingly. It does so by projecting out into the future the fiscal results of continuing the Town's current service levels and policies. This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

Revenue forecasts for the current Budget have been developed in close consultation with the Santa Clara County Assessor, Town Sales Tax consultant MuniServices, and a review of national and regional hospitality research. The more realistic revenue growth assumptions were adopted by the Council in February 2024 (see pages A-21 and A-22 in the Proposed Operating Budget, Attachment 1).

In addition to revenue projections, the Proposed Budget also forecasts anticipated increases in the Town's pension obligation payments and salaries as well as other expenditures (pages A-23 and A-24 in the Proposed Operating Budget Attachment 1). As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. The delivery of Town

DISCUSSION (continued):

services is highly dependent on recruiting and retaining talent which comprises 64.7% of budgeted General Fund expenditures for FY 2024/25.

Although the Town is fortunate to have a diverse economy, the loss of previously projected future growth in revenue, such as Sales Tax, in conjunction with increasing expenses continue to illustrate persistent deficits in future years. The deficits are on the order of approximately \$1.1 million to \$1.8 million per year including the 4.6% salary saving factor and the more realistic revenue growth assumption that the Council adopted in February 2024.

Balancing the Proposed FY 2024/25 Operating Budget

For FY 2024/25, the Proposed Operating Budget is balanced by utilizing three primary strategies. The first strategy was the direction to all Departments to develop a status quo budget for operational expenditures. To that end, the Departments programmed existing resources by either maintaining current structures or realigning operations to remain effective and efficient. This proved exceptionally difficult as vendor, supply, and other costs rose beyond FY 2023/24 levels and Departments needed to absorb additional State unfunded mandates. In addition, Departments were provided guidance to enhance capacity where necessary through limit-dated, non-benefited personnel options when possible.

The second strategy is to build in a 4.6% salary savings factor that represents approximately \$1.8 million in anticipated savings. Per prior Council direction, staff continues to hire for all vacant positions. If vacancy savings do not materialize, staff will come back to Council for adjustments.

The third strategy is the one-time use of \$0.6 million of the Town's residual Measure G District Sales Tax – Operating Reserve for one-time expenditures.

Overview of Proposed Capital Budget

The FY 2024/25 – FY 2028/29 Capital Improvement Program (CIP) sets forth a five-year plan for proposed streets, parks, and public facility projects. The Transmittal Letter contained in the CIP provides a summary of the program including funding sources, recently completed projects, and the proposed projects for FY 2024/25. The proposed \$32.8 million in the first year of the CIP is comprised of approximately \$25.7 million in carryover funds from FY 2023/24 and approximately \$7.1 million in new funding. Carryforward is projected to decrease \$1.9 million from the FY2023/24 CIP as staff is working off project backlog created by ARPA funding.

The \$7.1 million of new funding is comprised of \$4.2 million in General Fund Appropriated Reserve (GFAR), \$0.6 million in grants, and \$2.3 million from other sources. Only the first year

DISCUSSION (continued):

of the plan is formally adopted with funds appropriated by the Town Council as part of the budget process. Budget information for future years is based on potential future revenues that may fluctuate and change based on economic conditions.

While the \$32.8 million total carry forward and new appropriation represent the funding plan, the anticipated annual expenditures are detailed in Attachment 6.

The first year of the five-year CIP (FY 2024/25) continues funding for the Town Council Strategic Priorities, including basic infrastructure needs. In February 2024, the Town Council established the 2024-26 Strategic Priorities. In terms of capital projects, the Town Council affirmed its support of prioritizing traffic and transportation, public safety and quality of life related projects. The proposed CIP reflects these priorities by providing funding to:

- Advance bicycle and pedestrian identified in the adopted General Plan 2040 and the Bicycle and Pedestrian Master Plan (Highway 17 Overcrossing, Shannon Road Bicycle and Pedestrian Improvements);
- Enhance safety on Town roadways (Annual Street Resurfacing; Annual Curb, Gutter and Sidewalk; Shannon Road Repair);
- Parking management;
- Vegetation management for fire safety;
- Mapping the storm drainage system and analyzing critical drainage systems; and
- Resurface sport courts to increase pickleball access.

Staff is recommending that the residual and current year Measure G proceeds dedicated for capital should be programmed toward the Shannon Road Repair Project. Future year Measure G proceeds dedicated for Capital Improvement Projects should be programmed toward the State Route 17 Corridor Congestion Relief Project. At the time of the budget adoption, a resolution would memorialize the project(s) that are funded by the Measure G proceeds dedicated to the Capital Improvement Program.

On May 8, 2024, the Planning Commission reviewed the proposed CIP, found it consistent with the General Plan, and recommended its adoption by the Town Council.

Finance Commission Recommendations

As previously mentioned, the Finance Commission is tasked with a thorough review of the FY 2024/25 Proposed Operating and Capital Budgets. The Finance Commission held three meetings to review and discuss the documents. On May 13, 2024, the voting Commissioners in attendance unanimously approved the recommendations to the Town Council contained in Attachment 4.

DISCUSSION (continued):

The Commission recommended adoption of the Operating Budgets subject to its seven comments and observations in Attachment 4, including:

- The Proposed Operating Budget does not include the updated costs associated with future Memoranda of Understanding with two of the Town's three bargaining units;
- The conservative Sales Tax revenue projections; and
- The conservative Educational Revenue Augmentation Funds (ERAF) reserve set-aside.

In terms of ERAF, staff continues to recommend reserving 30% of the anticipated ERAF proceeds based on information provided by the Santa Clara County Assessor's Office to all Santa Clara County municipalities. Based on the most recent communication from the Santa Clara County Assessor's Office (SCAO), there is potential at-risk exposure related to the Governor's budget proposal of ERAF funding for Charter Schools, and the SCAO's audit findings on Excess ERAF calculation as presented below. The Town Estimated ERAF Risk Reserve is \$2,235,154 as of June 30, 2025 which is below the Town's estimated risk amount of \$2,996,455. Therefore, staff recommends continuing to reserve 30% of the anticipated ERAF proceeds.

|                                                                                         | FY 2020/21   | FY 2021/22   | FY 2022/23   | FY 2023/24   | FY 2024/25   | Total \$     |
|-----------------------------------------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
|                                                                                         | Actual       | Actual       | Actual       | Estimated    | Estimated    |              |
| Excess ERAF                                                                             | \$ 2,043,321 | \$ 2,371,984 | \$ 2,298,692 | \$ 2,534,820 | \$ 2,617,000 |              |
| <i>According to Santa Clara County State Controller Office March 2024 Communication</i> |              |              |              |              |              |              |
| State Controller Audit Finding Risk %                                                   | 22%          | 22%          | 22%          | 22%          | 20%          |              |
| State Controller Audit Finding Risk (\$)                                                | \$ 449,531   | \$ 521,836   | \$ 505,712   | \$ 557,660   | \$ 523,400   |              |
| Governor's Budget Proposal for Charter School Risk %                                    | N/A          | N/A          | N/A          | 8%           | 9%           |              |
| Governor's Budget Proposal for Charter School Risk \$                                   | N/A          | N/A          | N/A          | \$ 202,786   | \$ 235,530   |              |
| Total % at Risk                                                                         | 22%          | 22%          | 22%          | 30%          | 29%          |              |
| Total \$ at Risk                                                                        | \$ 449,531   | \$ 521,836   | \$ 505,712   | \$ 760,446   | \$ 758,930   | \$ 2,996,455 |
| Town ERAF Risk Reserve - 30%                                                            |              |              | \$ 689,608   | \$ 760,446   | \$ 785,100   | \$ 2,235,154 |

The Commission also suggested that the Council receive more information regarding sales tax revenue. The Town receives 1.0 cent of the 9.125 cents of sales tax paid per dollar of taxable sales generated in Town. Sales and Use Tax remains one of the General Fund's largest revenue sources. In addition, the Town collects 0.125 cent in dedicated sales tax as a result of a voter approved ballot initiative in 2018. The FY 2024/25 budget reflects \$6.6 million in sales tax revenue and \$1.3 million in dedicated sales tax revenue. Combined, this represents a 0.1% increase from the FY 2023/24 estimates, but a \$0.9 million dollar decrease from FY 2022/23 actual collections.

Sales tax estimates and projections are provided by MuniServices, the Town's sales tax consultant. Overall, growth rates vary due to the anticipation of when and to what extent inflation may begin to decline. The current forecast incorporates a Recession Inflation Scenario, with the Consumer Price Index for all Urban Customers hitting a target of 2.5% at the end of 2026. Taxable sales for general retail and transportation are expected to see the greatest impacts. Increased interest rates impact business to business activities, while increased

DISCUSSION (continued):

mortgage rates leave customers with less disposable income. In addition, gas service station sales are projecting decreased activity due to the popularity of electric vehicles.

The Commission had eight observations and comments regarding the Proposed CIP and recommended that the Council not accept the Proposed CIP unless staff provides an “expenditure profile” to accompany the “authorization profile.” In response to the Commission’s comments, staff prepared an expenditure profile for all projects in the Proposed CIP with anticipated capital expenditures for FY 24/25 and FY 25/26 (Attachment 6). It is important to note that a municipal CIP is not an expenditure plan but rather identification, allocation, and authorization of funding for projects. Other tools are used to manage project delivery to ensure they stay on time and within budget.

In response to the Commission’s comment about reconciling carry forward amounts between prior year Capital Improvement Programs that represent point in time information, , staff prepared a reconciliation (Attachment 5). The reconciliation demonstrates the difference between estimated and actual carry forwards that leads to updated budget numbers and budget actions that occur during the year that affect carry forward and budget. Staff will continue to work on future budget presentations that include anticipated expenditures, explanations for carry forward, and other improvements.

Consideration of Any Funding Requests

As the Council considers individual requests for new spending, the Council should consider these requests in the context of the Proposed Operating Budget and identify the source(s) of funding for the(se) item(s). At the time of the preparation of this report, requests have been submitted to the Town from NUMU, Los Gatos-Saratoga Recreation, and the Anti-Racism Coalition and faith community (see Attachment 10).

Donation Opportunities - FY 2024/25 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 7) to reflect goods, services, and other contributions that would help enhance Town services, programs, and events (Attachment 8).

Town Investment Policy

The Investment Policy (Attachment 9) establishes the investment scope, objectives, delegation of authority, standards of prudence, reporting requirements, internal controls, State mandated eligible investments, transactions, diversification requirements, risk tolerance, and safekeeping and custodial procedures for the investment of the operating funds of the Town. All Town

DISCUSSION (continued):

funds are invested and/or will be invested in accordance with the Investment Policy and with applicable sections of the California Government Code.

The Investment Policy requires an annual review. Staff is not recommending any changes to the Investment Policy this time. The Finance Commission reviewed the Policy at its March 2024 meeting and recommended no changes.

CONCLUSION AND NEXT STEPS:

At its May 21, 2024 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 or identified by staff (see Attachment 5.) will be included for Council consideration in the resolution formally adopting the Budgets to be considered by Council on June 4, 2024.

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.

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.

FISCAL IMPACT:

Under State law, the Town Council is required to enact a balanced budget. The Proposed Operating and Capital Budgets are balanced and as the Council directs changes, the outcome must be a balanced fiscal plan.

ENVIRONMENTAL ASSESSMENT:

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



Attachments Provided to the Council Prior to the Distribution of this Report:

1. FY 2024/25 Proposed Operating Budget

<https://www.losgatosca.gov/2957/Proposed-FY-2024-25-Operating-Budget>

2. FY 2024/25 – 2028/29 Proposed Capital Improvement Program Budget

<https://www.losgatosca.gov/2859/Proposed-2023-24-Capital-Budget>

Attachments Provided with this Report:

3. List of updates related to corrections based on staff and Commissioners review and comments
4. FY 2024/25 Finance Commission Operating and Capital Budget Recommendations
5. Sample Reconciliation of Carry Forward Amounts between Multiple CIPs
6. Anticipated Capital Expenditures FY 24/25 and FY 25/26
7. Town of Los Gatos Donation Policy
8. Town of Los Gatos Donation Opportunities: FY 2024/25
9. Town Investment Policy
10. Public Comment Received Before 11 a.m. on May 16, 2024