



**TOWN OF LOS GATOS  
FINANCE COMMISSION AGENDA  
FEBRUARY 10, 2025  
110 EAST MAIN STREET  
TOWN COUNCIL CHAMBERS  
5:30 PM**

*Linda Reiners, Chair  
Ashby Monk, Vice Chair  
Adam Fischer, Commissioner  
Phil Koen, Commissioner  
Joseph Rodgers, Commissioner  
Matthew Hudes, Mayor  
Rob Moore, Vice Mayor*

**IMPORTANT NOTICE**

This is a hybrid meeting and will be held in-person at the Town Council Chambers at 110 E. Main Street and virtually through Zoom Webinar (log-in information provided below). Members of the public may provide public comments for agenda items in-person or virtually through the Zoom Webinar by following the instructions listed below.

**HOW TO PARTICIPATE**

The public is welcome to provide oral comments in real-time during the meeting in three ways:

**Zoom Webinar (Online):** Join from a PC, Mac, iPad, iPhone or Android device. Please click this

URL to join: [https://losgatosca-](https://losgatosca.gov.zoom.us/j/83324739120?pwd=ROVSrj37YUwahyFb4dlq2e3DLEo4W0.1)

[gov.zoom.us/j/83324739120?pwd=ROVSrj37YUwahyFb4dlq2e3DLEo4W0.1](https://losgatosca.gov.zoom.us/j/83324739120?pwd=ROVSrj37YUwahyFb4dlq2e3DLEo4W0.1)

Passcode: 136033 You can also type in 833 2473 9120 in the “Join a Meeting” page on the Zoom website at and use passcode 136033.

When the Mayor announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press \*9 on your telephone keypad to raise your hand.

**Telephone:** Please dial (877) 3361839 for US Toll-free or (636) 651-0008 for US Toll. (Conference code: 686100)

If you are participating by calling in, press #2 on your telephone keypad to raise your hand.

**In-Person:** Please complete a “speaker’s card” located on the back of the chamber benches and return it to the Town Clerk before the meeting or when the Chair announces the item for which you wish to speak.

**NOTES:** (1) Comments will be limited to three (3) minutes or less at the Chair’s discretion.

(2) If you are unable to participate in real-time, you may email to Clerk@losgatosca.gov the subject line “Public Comment Item #\_\_” (insert the item number relevant to your comment). All comments received will become part of the record.

(3) Deadlines to submit written comments are:

- 11:00 a.m. the Friday before the Commission meeting for inclusion in an addendum.
- 11:00 a.m. on the day of the Commission meeting for inclusion in a desk item.

(4) Persons wishing to make a visual presentation on an item listed under Other Business, must submit the presentation electronically to Clerk@losgatosca.gov no later than 3:00 p.m. on the day of the Commission meeting.

## **CALL MEETING TO ORDER**

### **ROLL CALL**

**APPROVE REMOTE PARTICIPATION** *(This item is listed on the agenda in the event there is an emergency circumstance requiring a Commissioner to participate remotely under AB 2449 (Government Code 54953)).*

**CONSENT ITEMS** *(Items appearing on the Consent are considered routine Town business and may be approved by one motion. Members of the public may provide input on any Consent Item(s) when the Chair asks for public comment on the Consent Items.)*

- [1.](#) Approve the Minutes of the January 13, 2025, Finance Commission Special Meeting
- [2.](#) Receive the Monthly Financial and Investment Report for December 2024

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Commission on any matter that is not listed on the agenda and is within the subject matter jurisdiction of the Finance Commission. To ensure all agenda items are heard, this portion of the agenda is limited to 30 minutes. In the event additional speakers were not able to be heard during the initial Verbal Communications portion of the agenda, an additional Verbal Communications will be opened prior to adjournment. Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.)*

**OTHER BUSINESS** *(Up to three minutes may be allotted to each speaker on any of the following items.)*

- [3.](#) Receive the FY 2024-25 Mid-Year Budget Report
- [4.](#) Review and Make a Recommendation to the Town Council on the FY 2025-26 Five-Year Forecast and Supporting Work Product

### **STAFF LIAISON REPORT**

### **ADJOURNMENT**

**ADA NOTICE** In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Clerk's Office at (408) 354-6834. Notification at least two (2) business days prior to the meeting date will enable the Town to make reasonable arrangements to ensure accessibility to this meeting. [28 CFR §35.102-35.104]

Materials related to an item on this agenda submitted to the Commission after initial distribution of the agenda packets are available for public inspection in the Clerk's Office at Town Hall, 110 E. Main Street, Los Gatos and on Town's website at [www.losgatosca.gov](http://www.losgatosca.gov). Commission agendas and related materials can be viewed online at <https://losgatos-ca.municodemeetings.com/>.



**TOWN OF LOS GATOS  
FINANCE COMMISSION  
MINUTES**

MEETING DATE: 2/10/2025

Item 1.

ITEM NO: 1

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**Minutes of the Finance Commission Special Meeting  
January 13, 2025**

The Finance Commission of the Town of Los Gatos conducted a special meeting in person and utilizing teleconferencing means on Monday, January 13, 2025, at 5:30 p.m.

**THE MEETING WAS CALLED TO ORDER AT 5:35 P.M.**

**ROLL CALL**

Present: Chair Phil Koen, Vice Chair Linda Reiners, Commissioner Adam Fischer, Commissioner Ashby Monk, Commissioner Joe Rodgers, Mayor Matthew Hudes, and Vice Mayor Rob Moore

Town Staff Present: Town Manager Chris Constantin, Finance Director Gitta Ungvari, Town Clerk Wendy Wood, and Finance and Accounting Manager Eric Lemon.

**CONSENT ITEMS**

1. Approve the Minutes of the December 9, 2024, Finance Commission Regular Meeting.
2. Receive the Monthly Financial and Investment Report for November 2024

There was no public comment.

**MOTION:** Motion by Chair Koen to approve the consent items. **Seconded** by Vice Chair Reiners.

**VOTE:** Motion passed unanimously.

**VERBAL COMMUNICATIONS**

There was no public comment.

**OTHER BUSINESS**

3. Discussion and Action to Select a Chair and Vice Chair for the Finance Commission

**MOTION:** Motion by Chair Koen to nominate Linda Reiners to Chair of the Finance Commission. **Seconded** by Commissioner Monk.

**VOTE:** Motion passed unanimously.

**MOTION:** Motion by Chair Reiners to nominate Commissioner Asby Monk to Vice Chair of the Finance Commission. **Seconded** by Commissioner Koen.

**VOTE:** Motion passed unanimously.

There was no public comment.

- 4. Discussion, Consideration and Approval of a Resolution Setting Finance Commission Meeting Dates, Times, Location for 2025

Commissioner Koen opened the item for discussion.

The Commission discussed the item and asked questions.

Staff addressed the Commissioners' questions.

There was no public comment.

**MOTION:** Motion by Commissioner Koen to approve the draft resolution noting the time to meet would be 5:30 p.m. in the Council Chambers and noting the change from May 6 to May 5 (in the 2025 meeting schedule). **Seconded** by Vice Chair Monk.

**VOTE:** Motion passed unanimously.

- 5. Review the Town's Draft FY 2023-24 Financial Transactions Report for Submittal to the State Controller

Gitta Ungvari, Finance Director, presented the staff report.

The Commission discussed the item and asked questions.

Staff addressed the Commissioners' questions.

There was no public comment.

No action was taken.

- 6. Review, Discuss, and Approve the Finance Commission 2025 Workplan

Chris Constantin, Town Manager, presented the item and opened it for discussion.

The Commission discussed the item and asked questions.

Staff addressed the Commissioners' questions.

There was no public comment.

**MOTION:** Motion by Chair Reiners to sunset the Capital (Five Year Capital Plan) Ad Hoc, sunset the Pension (Unfunded Pension Liability/CalPERS) Ad Hoc, and continue the Score Card Ad Hoc with Chair Reiners and Vice Chair Monk. **Seconded by Commissioner Koen.**

**VOTE:** Motion passed unanimously.

The commission further discussed recommending the work plan as presented to the Council and having an item return with the fiscal impact study.

**MOTION:** Motion by Chair Reiners to recommend Staff's recommendation (approve the work plan as presented) and have a placeholder to later add the review of the fiscal impact study scope. **Seconded by Commissioner Koen.**

**VOTE:** Motion passed unanimously.

**ADJOURNMENT:**

The meeting adjourned at 6:50 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the January 13, 2025, special meeting as approved by the Finance Commission.

\_\_\_\_\_  
Eric Lemon, Finance and Accounting Manager



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/10/2025

ITEM NO: 2

Item 2.

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DATE: February 3, 2025  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: Receive the Monthly Financial and Investment Report for December 2024

**RECOMMENDATION:**

Receive the monthly Financial and Investment Report for December 2024.

**BACKGROUND:**

California Government Code Section 41004 requires that the Town Treasurer submit to the Town Clerk and the legislative body a written report and accounting of all receipts, disbursements, and fund balances. The Finance Director assumes the Town Treasurer role. Attachment 1 contains the December 2024 monthly Financial and Investment Report which fulfills this requirement.

The December 2024 Monthly Financial and Investment Report will be presented to Town Council at its February 18, 2025, regular meeting.

**DISCUSSION:**

The December 2024 Monthly Financial and Investment Report includes a Fund Balance Schedule, representing estimated funding available for all funds at the beginning of the fiscal year and at the end of the respective month.

As operations fluctuate month to month, there are differences between balances in one month to balances in another. Such differences may be significant due to the type of activity in those months and the timing of any estimates used in the presentation based on the information available. This is demonstrated by the attached December 31, 2024, fund balance report.

**PREPARED BY:** Eric Lemon  
Finance and Accounting Manager

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Reviewed by: Town Manager, Town Attorney, and Finance Director

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In the case that the differences are extraordinary and unanticipated, we will ensure we present more information to explain the differences.

The December 31, 2024, estimated fund balances differ from the November 30, 2024 estimated fund balances due to the normal day-to-day activity where revenue and expenditure activity in one month have a larger shift in one month from the other.

Please note that the amount in the Fund Schedule differs from the Portfolio Allocation and Treasurer’s Cash Fund Balances Summary schedule because assets and liabilities are components of the Fund Balance.

As illustrated in the summary below, Total Cash is adjusted by adding Total Assets less the amount of Total Liabilities to arrive at the Ending Fund Balance – which represents the actual amount of funds available.

<b>Reconciling Cash to Fund Balance - December 31, 2024</b>		
Total Cash	\$	66,720,922
Plus: Assets	\$	14,324,485
Less: Liabilities	\$	(26,376,517)
<b>Estimated Fund Balance</b>	<b>\$</b>	<b>54,668,890</b>

As of December 31, 2024, the Town’s financial position (Cash Plus Other Assets \$81.05M, Liabilities \$26.38M, and Fund Equity \$54.67M) remains strong and the Town has sufficient funds to meet the cash demands for the next six months.

As of December 31, 2024, the Town’s weighted portfolio yield for investments under management was 4.44% which was 1 basis point above the Local Agency Investment Fund (LAIF) yield of 4.43% for the same reporting period. As of November 30th, 2024, the LAIF portfolio’s weighted average maturity (WAM) is 257 days versus the Town’s longer WAM of 677 days on December 31, 2024. The longer WAM for Town assets under management reflects the Town’s strategy to take advantage of higher yields associated with longer maturities balanced with shorter-term yields available on investments held with the State’s LAIF. The Town’s weighted average rate of return on investments under management of 4.44% at the close of December decreased 1 basis point when compared to the November 30, 2024, investment report.

Since December 2023, LAIF yields have climbed from 393 basis points (3.93%) to 443 basis points (4.43%) through the end of December 2024. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

PAGE 3 OF 3

SUBJECT: Monthly Financial and Investment Report for December 2025

DATE: February 3, 2025

After the rate change back in July of 2023, the Federal Open Market Committee (FOMC) did not change rates again until their September 18, 2024, meeting when they approved a 1/2 percentage basis point decrease from 5.5% to 5.0%. Furthermore, on November 7, 2024, the Federal Reserve voted to approve an additional 1/4 basis point decrease from 5.0% to 4.75%. The most recent change was at their December 2024 meeting when the Federal Reserve voted to approve another 1/4 basis point decrease from 4.75% to 4.50%. These changes support the Federal Open Market Committee's goal to support maximum employment and bring year-to-year inflation to its targeted level of 2%.

The US economy added 227,000 jobs in November, close to consensus forecasts. The prior two months were revised up following hurricane and strike related disruptions in the prior month. The unemployment rate edged up from 4.1% to 4.2% while the participation rate fell from 62.6% to 62.5%. Wage growth remained at 4%.

The Town's investments are in compliance with the Town's Investment Policy dated February 21, 2023, and are also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

CONCLUSION:

Receive the Monthly Financial and Investment Report for December 2024.

Attachments:

1. Financial and Investment Report (December 2024)



**Town of Los Gatos  
Summary Investment Information  
December 31, 2024**

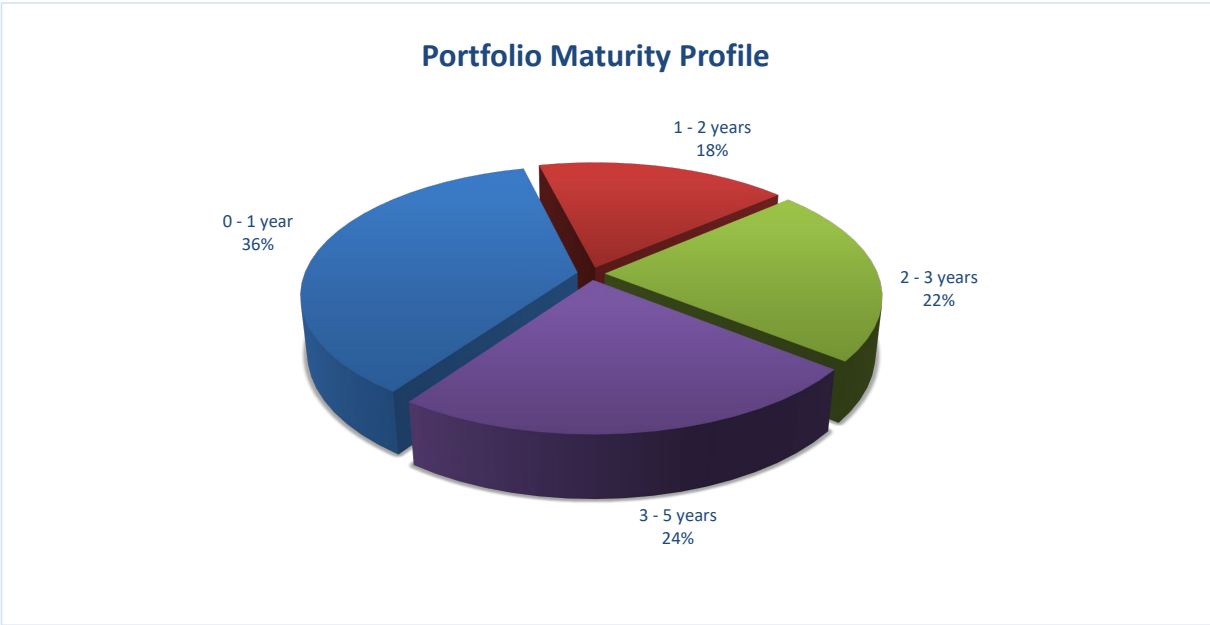
**Weighted Average YTM Portfolio Yield on Investments under Management** **4.44%**

**Weighted Average Maturity (days)** **677**

	This Month	Last Month	One year ago
<b>Portfolio Allocation &amp; Treasurer's Cash Balances</b>	\$66,720,922	\$69,393,525	\$67,640,642
Managed Investments	\$50,532,565		
Local Agency Investment Fund	\$11,874,049		
Reconciled Demand Deposit Balances	\$4,314,308		
Portfolio Allocation & Treasurer's Cash Balances	\$66,720,922		

**Benchmarks/ References:**

Town's Average Yield	4.44%	4.45%	4.23%
LAIF Yield for month	4.43%	4.48%	3.93%
3 mo. Treasury	4.31%	4.49%	5.36%
6 mo. Treasury	4.27%	4.44%	5.27%
2 yr. Treasury	4.24%	4.15%	4.25%
5 yr. Treasury	4.38%	4.05%	3.85%
10 Yr. Treasury	4.57%	4.17%	3.88%

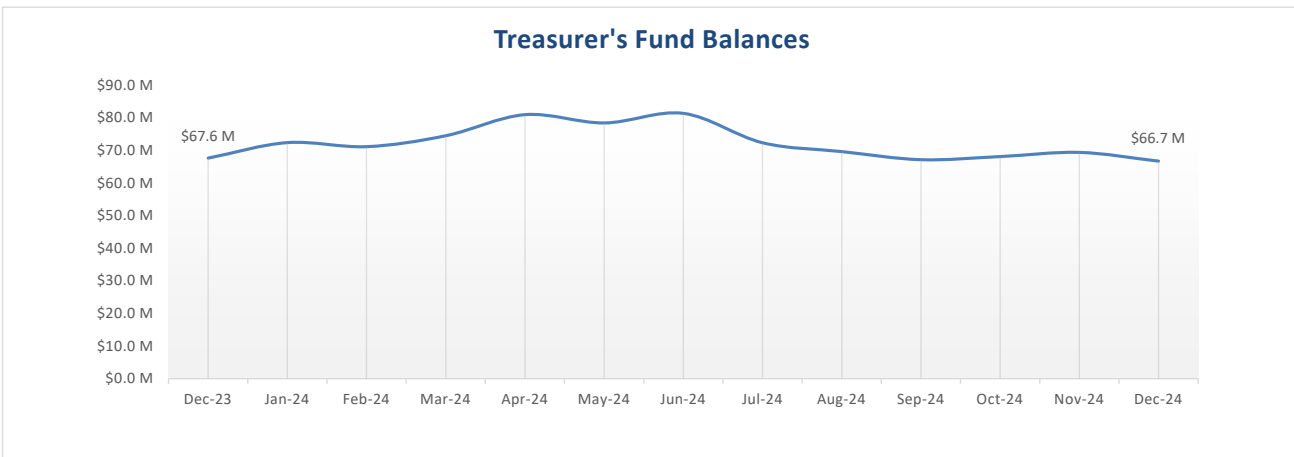
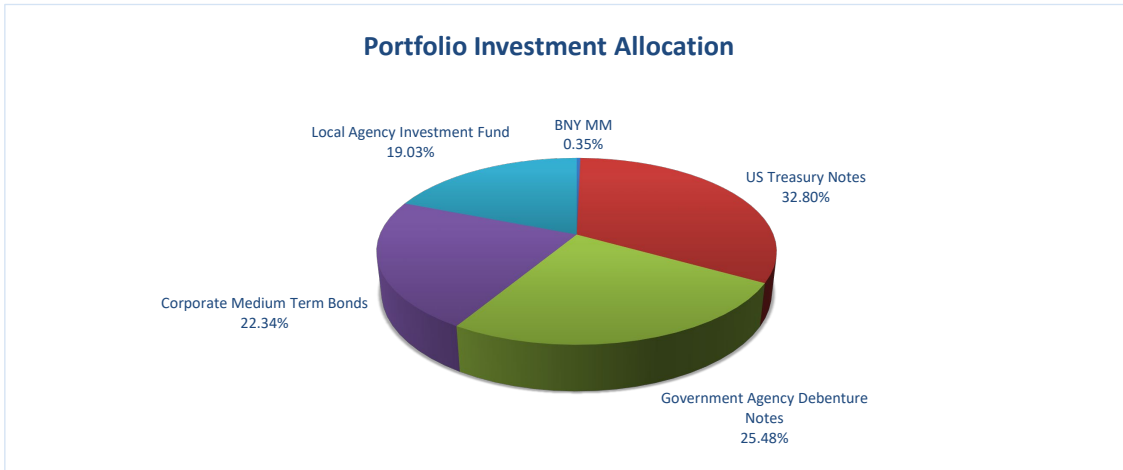


**Compliance:** The Town's investments are in compliance with the Town's investment policy dated February 21, 2023, and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos  
Portfolio Allocation & Treasurer's Cash Balances  
December 31, 2024**

	<u>Month</u>	<u>YTD</u>
Cash & Investment Balances - Beginning of Month/Period	\$ 69,393,524.76	\$ 81,368,409.88
Receipts	5,250,952.05	32,624,696.11
Disbursements	(7,923,555.04)	(47,272,184.22)
Cash & Investment Balances - End of Month/Period	<u>\$66,720,921.77</u>	<u>\$66,720,921.77</u>

<b>Portfolio Allocation</b>	<b>Amount</b>	<b>% of Portfolio</b>	<b>Max. % or \$ Allowed per State Law or Policy</b>
BNY MM	\$219,054.88	0.35%	20% of Town Portfolio
US Treasury Notes	\$20,469,190.11	32.80%	No Max. on US Treasuries
Government Agency Debenture Notes	\$15,904,019.60	25.48%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$13,940,300.50	22.34%	30% of Town Portfolio
Local Agency Investment Fund	\$11,874,049.16	19.03%	\$75 M per State Law
Subtotal - Investments	<u>62,406,614.25</u>	100.00%	
Reconciled Demand Deposit Balances	<u>4,314,307.52</u>		
<b>Total Portfolio Allocation &amp; Treasurer's Cash Balances</b>	<u><u>\$66,720,921.77</u></u>		



**Town of Los Gatos  
Non-Treasury Restricted Fund Balances  
December 31, 2024**

	Beginning Balance	December 2024 Deposits Realized Gain/Adj.	December 2024 Interest/ Earnings	December 2024 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Ser A Reserve Fund	\$ 697,187.51	\$ -	\$ 2,388.40	\$ -	\$ 699,575.91	Note 1
Cert. of Participation 2010 Ser Lease Payment Fund	976.88	-	3.63	-	980.51	Note 2
Cert. of Participation 2002 Ser A Lease Payment Fund	17,519.84	-	60.00	-	17,579.84	Note 1
Cert. of Participation 2010 Ser Reserve Fund	1,418,518.80	-	5,309.11	-	1,423,827.91	Note 2
Total Restricted Funds:	<u>\$ 2,134,203.03</u>	<u>\$ -</u>	<u>\$ 7,761.14</u>	<u>\$ -</u>	<u>\$ 2,141,964.17</u>	
CEPPT IRS Section 115 Trust	2,307,781.57	-	(54,703.92)	-	\$ 2,253,077.65	Note 3
Grand Total COP's and CEPPT Trust	<u>\$ 4,441,984.60</u>	<u>\$ -</u>	<u>\$ (46,942.78)</u>	<u>\$ -</u>	<u>\$ 4,395,041.82</u>	

*These accounts are not part of the Treasurer's fund balances reported elsewhere in this report, as they are for separate and distinct entities.*

**Note 1:** The three original funds for the Certificates of Participation 2002 Series A consist of construction funds which will be expended over the next few years, reserve funds which will guarantee the payment of lease payments, and a third fund for the disbursement of lease payments and initial delivery costs.

**Note 2:** The 2010 COP Funds are all for the Library construction, reserves to guarantee lease payments, and a lease payment fund for the life of the COP issue. The COI fund was closed in September 2010.

**Note 3:** The CEPPT IRS Section 115 Trust was established as an irrevocable trust dedicated to accumulate resources to fund the Town's unfunded liabilities related to pension and other post employment benefits.

**Town of Los Gatos**  
**Statement of Interest Earned**  
**December 31, 2024**

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July 2024	\$	247,221.75
August 2024	\$	212,684.25
September 2024	\$	265,151.31
October 2024	\$	234,237.63
November 2024	\$	227,312.31
December 2024	\$	239,396.54
January 2025	\$	-
February 2025	\$	-
March 2025	\$	-
April 2025	\$	-
May 2025	\$	-
June 2025	\$	-
	\$	<u>1,426,003.79</u>

Town of Los Gatos  
Investment Schedule  
December 31, 2024

Institution	CUSIP #	Security	Coupon	Deposit Date	Par Value	Original Cost	Original Issue (Discount) Premium	Market Value	Market Value Above (Under) Cost	Purchased Interest	Maturity Date or Call Date	Yield to Maturity or Call	Interest Received to Date	Interest Earned Prior Yrs.	Interest Earned Current FY	Days to Maturity
Apple	037833DB3	Corporate Bond	2.90%	12/20/2022	1,300,000.00	1,228,591.00	(71,409.00)	1,250,366.00	21,775.50		6/21/2027	4.19%	\$ 65,137.22	\$ 81,871.88	\$ 26,997.18	902
Home Depot	437076BM5	Corporate Bond	3.00%	8/4/2022	1,000,000.00	991,960.00	(8,040.00)	982,240.00	64,750.00		1/1/2026	3.04%	\$ 64,750.00	\$ 61,696.52	\$ 16,310.57	366
US Treasury	912828ZW3	US Treasury Note	0.25%	8/9/2022	350,000.00	322,096.88	(27,903.12)	343,304.50	21,207.62		6/30/2025	3.16%	\$ 2,092.39	\$ 19,915.08	\$ 5,303.00	181
FFCB	3133ENS58	Gov. Agency Debenture	4.13%	1/17/2023	236,000.00	239,174.20	3,174.20	235,261.32	(3,912.88)		1/11/2027	3.76%	\$ 14,440.25	\$ 12,979.52	\$ 4,506.10	741
US Treasury	91282CBT7	US Treasury Note	0.75%	9/30/2022	800,000.00	712,565.18	(87,434.82)	766,248.00	53,682.82		3/31/2026	4.14%	\$ 12,000.00	\$ 54,221.52	\$ 15,613.08	455
FFCB	3133ENP95	Gov. Agency Debenture	4.25%	9/30/2022	900,000.00	900,939.60	939.60	899,775.00	(1,164.60)		9/30/2025	4.14%	\$ 76,500.00	\$ 66,415.88	\$ 19,124.45	273
JP Morgan Chase	46625HRS1	Corporate Bond	3.20%	9/23/2022	500,000.00	474,660.00	(25,340.00)	490,495.00	15,835.00		3/15/2026	4.70%	\$ 35,644.44	\$ 41,217.45	\$ 11,739.95	439
FFCB	3135G05X7	Gov. Agency Debenture	0.38%	6/10/2022	1,200,000.00	1,102,952.40	(97,047.60)	1,169,952.00	66,999.60		8/25/2025	3.04%	\$ 9,937.50	\$ 71,445.55	\$ 17,504.64	237
US Treasury	912828ZL7	US Treasury Note	0.38%	4/12/2022	1,700,000.00	1,583,927.57	(116,072.43)	1,678,427.00	94,499.43		4/30/2025	2.72%	\$ 16,254.49	\$ 98,544.63	\$ 22,385.45	120
FHLB	3130AQF65	Gov. Agency Debenture	1.25%	11/30/2022	1,300,000.00	1,160,559.40	(139,440.60)	1,229,280.00	68,720.60		12/21/2026	4.15%	\$ 33,447.92	\$ 80,116.59	\$ 25,504.24	720
FHLB	3130APH9	Gov. Agency Debenture	1.00%	1/17/2023	1,000,000.00	907,010.00	(92,990.00)	958,320.00	51,310.00		10/28/2026	4.17%	\$ 18,354.17	\$ 50,234.10	\$ 17,439.76	666
FFCB	3133ENS6	Gov. Agency Debenture	4.00%	2/8/2023	1,700,000.00	1,689,032.50	(10,967.50)	1,683,442.00	(2,290.00)		1/6/2028	3.91%	\$ 95,955.56	\$ 92,733.76	\$ 33,588.61	1101
Freddie Mac	3137EAEX3	Gov. Agency Debenture	0.38%	5/1/2023	750,000.00	689,032.50	(60,967.50)	729,382.50	40,350.00		9/23/2025	3.97%	\$ 3,921.87	\$ 32,931.11	\$ 14,223.77	266
American Honda	02665WED9	Corporate Bond	4.70%	5/11/2023	600,000.00	608,856.00	8,856.00	598,500.00	(10,356.00)		1/12/2028	4.34%	\$ 32,978.33	\$ 29,982.05	\$ 13,261.29	1107
US Treasury	91282CEFA	US Treasury Note	2.50%	6/9/2023	1,500,000.00	1,416,626.12	(83,373.88)	1,444,215.00	27,588.88		3/31/2027	4.09%	\$ 49,077.87	\$ 62,956.31	\$ 29,932.72	820
US Treasury	91282CGA3	US Treasury Note	4.00%	6/20/2023	2,100,000.00	2,080,558.59	(19,441.41)	2,096,430.00	15,871.41		12/15/2025	4.40%	\$ 124,852.46	\$ 94,733.28	\$ 46,280.54	349
Colgate-Palmolive	194162AR4	Corporate Bond	4.60%	7/14/2023	500,000.00	504,655.00	4,655.00	503,340.00	(1,315.00)		2/1/2028	4.37%	\$ 26,002.79	\$ 21,195.52	\$ 11,079.48	1127
FannieMae	3135G06G3	Gov. Agency Debenture	0.50%	7/14/2023	500,000.00	455,157.00	(44,843.00)	484,380.00	(23,290.00)		11/7/2025	4.63%	\$ 3,284.72	\$ 21,047.01	\$ 11,001.85	311
FFCB	3133EPOC2	Gov. Agency Debenture	4.63%	7/17/2023	500,000.00	501,957.50	1,957.50	502,160.00	202.50		7/17/2026	4.48%	\$ 23,125.00	\$ 21,487.97	\$ 11,328.90	563
FFCB	3133EPBM6	Gov. Agency Debenture	4.13%	7/14/2023	600,000.00	596,220.00	(3,780.00)	596,928.00	708.00		8/23/2027	4.29%	\$ 27,431.25	\$ 24,754.94	\$ 12,940.08	965
PNC Bank	69353RFJ2	Corporate Bond	3.25%	7/25/2023	1,000,000.00	921,490.00	(78,510.00)	957,640.00	36,150.00		12/23/2027	5.23%	\$ 32,229.17	\$ 46,970.90	\$ 25,345.00	1087
US Treasury	91282CFU0	US Treasury Note	4.13%	7/31/2023	1,300,000.00	1,290,660.00	(9,339.40)	1,294,722.00	4,061.40		10/31/2027	4.31%	\$ 67,031.25	\$ 51,232.08	\$ 28,139.41	1034
Toyota Motor Credit	89236TKL8	Corporate Bond	5.45%	8/25/2023	1,600,000.00	1,167,168.00	(432,832.00)	1,637,424.00	20,256.00		11/10/2027	5.16%	\$ 105,366.67	\$ 70,599.88	\$ 41,904.45	1044
US Treasury	912810FE3	US Treasury Note	5.50%	10/3/2023	1,200,000.00	1,238,207.14	38,207.14	1,250,064.00	11,856.86		8/15/2028	4.76%	\$ 57,211.96	\$ 47,319.27	\$ 29,317.29	1323
Pepsico Inc	713448DF2	Corporate Bond	2.85%	10/16/2023	1,000,000.00	947,570.00	(52,430.00)	982,280.00	34,710.00		11/24/2025	5.24%	\$ 24,383.33	\$ 37,712.66	\$ 26,895.85	328
FFCB	3133EPWJ3	Gov. Agency Debenture	4.75%	10/13/2023	1,000,000.00	994,338.00	(5,662.00)	1,007,700.00	13,362.00		1/9/2026	4.96%	\$ 41,958.33	\$ 35,367.82	\$ 24,933.64	609
Freddie Mac	3137EAEPO	Gov. Agency Debenture	1.50%	10/13/2023	1,000,000.00	951,540.00	(48,460.00)	996,750.00	45,210.00		2/12/2025	5.32%	\$ 12,458.33	\$ 36,644.18	\$ 25,833.45	43
US Treasury	91282CEW7	US Treasury Note	3.25%	10/16/2023	1,000,000.00	950,039.00	(49,960.94)	976,450.00	26,410.94		6/30/2027	4.73%	\$ 39,211.96	\$ 32,499.52	\$ 23,177.95	911
US Treasury	91282CEN7	US Treasury Note	2.75%	10/31/2023	1,300,000.00	1,214,336.39	(85,663.61)	1,256,684.00	42,347.61		4/30/2027	4.82%	\$ 35,750.00	\$ 40,101.59	\$ 30,364.99	850
US Treasury	91282CAB7	US Treasury Note	0.25%	11/15/2023	675,000.00	623,909.31	(51,090.69)	659,650.50	35,750.11		7/31/2025	4.92%	\$ 1,196.84	\$ 19,725.12	\$ 15,918.52	212
US Treasury	91282CGU9	US Treasury Note	3.88%	11/30/2023	1,000,000.00	983,515.62	(16,484.38)	998,980.00	15,464.38		3/31/2025	5.17%	\$ 32,291.67	\$ 29,822.81	\$ 25,762.43	90
US Treasury	91282CCH2	US Treasury Note	1.25%	12/21/2023	900,000.00	798,647.55	(101,352.45)	810,810.00	12,162.45		6/30/2028	3.99%	\$ 11,555.71	\$ 17,690.14	\$ 16,953.05	1277
FNMA	3135G0Q22	Gov. Agency Debenture	1.88%	12/21/2023	900,000.00	845,676.00	(54,324.00)	864,909.00	19,233.00		9/24/2026	4.22%	\$ 12,796.88	\$ 19,224.14	\$ 18,423.14	632
US Treasury	91282CFB2	US Treasury Note	2.75%	1/2/2024	1,000,000.00	960,354.91	(39,645.09)	962,970.00	2,615.09		7/31/2027	3.95%	\$ 15,917.12	\$ 19,025.75	\$ 19,448.54	942
US Treasury	91282CHE4	US Treasury Note	3.63%	1/17/2024	1,800,000.00	1,775,185.72	(24,814.28)	1,760,346.00	(14,839.72)		5/31/2028	3.97%	\$ 56,692.63	\$ 32,061.96	\$ 35,753.94	1247
JP Morgan Chase	46647PDG8	Corporate Bond	4.85%	2/1/2024	1,400,000.00	1,396,528.00	(3,472.00)	1,399,888.00	3,360.00		7/25/2027	4.93%	\$ 32,825.10	\$ 28,319.94	\$ 34,739.13	936
US Bancorp	91159HJF8	Corporate Bond	4.55%	2/5/2024	1,000,000.00	989,200.00	(10,800.00)	991,710.00	2,510.00		7/22/2027	4.89%	\$ 21,097.67	\$ 19,440.46	\$ 24,500.30	933
Treasury	91282CHB0	US Treasury Note	3.63%	2/23/2024	1,175,000.00	1,154,962.92	(23,037.08)	1,165,271.00	13,308.08		5/15/2026	4.56%	\$ 30,892.17	\$ 18,568.45	\$ 26,692.14	500
FHLB	3130AXB31	Gov. Agency Debenture	4.88%	2/27/2024	1,000,000.00	1,003,060.00	3,060.00	1,006,660.00	3,600.00		3/13/2026	4.72%	\$ 27,354.17	\$ 16,052.33	\$ 23,819.58	437
FFCB	3133EP5U5	Gov. Agency Debenture	4.13%	3/28/2024	1,700,000.00	1,687,981.00	(12,019.00)	1,680,501.00	(7,480.00)		3/20/2029	4.28%	\$ 33,504.17	\$ 18,681.03	\$ 36,567.13	1540
US Treasury	9128285M8	US Treasury Note	3.13%	4/30/2024	1,200,000.00	1,123,832.14	(76,167.86)	1,148,112.00	24,279.86		11/15/2028	4.69%	\$ 20,295.34	\$ 9,066.06	\$ 27,346.81	1415
Cisco Systems	17275RBR2	Corporate Bond	4.85%	5/15/2024	1,000,000.00	999,130.00	(870.00)	1,006,300.00	7,170.00		1/26/2029	4.87%	\$ 13,606.94	\$ 6,135.64	\$ 24,542.55	1487
Home Depot	437076CW0	Corporate Bond	4.90%	5/17/2024	1,000,000.00	1,001,790.00	1,790.00	1,008,710.00	6,920.00		4/15/2029	4.86%	\$ 20,144.44	\$ 5,862.95	\$ 24,517.78	1566
Treasury	91282CJR3	US Treasury Note	3.75%	5/31/2024	1,200,000.00	1,154,629.02	(45,370.98)	1,172,904.00	18,274.98		12/31/2028	4.68%	\$ 26,208.79	\$ 4,511.24	\$ 27,668.97	1461
American Honda	02665WEY3	Corporate Bond	4.95%	6/27/2024	1,000,000.00	995,640.00	(4,360.00)	1,001,780.00	6,140.00		1/9/2026	5.25%	\$ 1,787.50	\$ 430.16	\$ 26,383.44	374
FHLB	3130B1BT3	Gov. Agency Debenture	4.88%	7/2/2024	1,150,000.00	1,150,966.00	966.00	1,159,246.00	8,280.00		6/12/2026	4.82%	\$ 19,310.42	-	\$ 27,706.83	528
Citibank	17325FBK3	Corporate Bond	4.84%	8/15/2024	1,250,000.00	1,263,062.50	13,062.50	1,244,350.00	(18,712.50)		7/6/2029	4.60%	\$ (1,511.88)	-	\$ 21,855.21	1648
FNMA	3135G05Y5	Gov. Agency Debenture	0.75%	9/10/2024	1,100,000.00	1,010,724.00	(89,276.00)	998,195.00	(12,529.00)		10/8/2027	3.56%	\$ 641.67	-	\$ 11,435.26	1011
US Treasury	91282CFLO	US Treasury Note	3.88%	12/3/2024	1,100,000.00	1,088,144.31	(11,855.69)	1,075,943.00	(12,201.31)	7,494.51	9/30/2029	4.12%	\$ (7,494.51)	-	\$ 3,458.26	1734
Subtotal					\$ 51,986,000.00	\$ 50,313,510.21	\$ (1,672,489.79)	\$ 51,119,395.82	\$ 805,885.61	\$ 9,006.39			\$ 1,519,902.07	\$ 1,699,246.78	\$ 1,095,470.70	
BNY MM		Money Market				219,054.88		219,054.88	0.00			0.00%				1
LAIF		State Investment Pool				11,874,049.16		11,869,560.59	(4,488.57)			4.43%			309,644.30	1
						<b>62,406,614.25</b>		<b>\$63,208,011.29</b>	<b>\$801,397.04</b>	<b>\$9,006.39</b>			<b>\$ 1,519,902.07</b>	<b>\$ 1,699,246.78</b>	<b>\$ 1,405,115.00</b>	
<b>Matured Assets</b>																
FNMA	3135G0V75	Gov. Agency Debenture	1.75%	10/17/2019	1,100,000.00	1,105,833.30	5,833.30				7/2/2024	1.63%	\$ 90,956.25	\$ 84,780.33	\$ 98.70	
Honeywell Intl.	438516BW5	Corporate Bond	2.30%	11/20/2019	1,000,000.00	1,014,660.00	14,660.00				8/15/2024	1.64%	\$ 108,483.33	\$ 91,844.87	\$ 2,508.83	
FFCB	3133EKQA7	Gov. Agency Debenture	2.08%	10/21/2019	1,000,000.00	1,019,780.00	19,780.00				9/10/2024	1.66%	\$ 101,631.11	\$ 78,691.92	\$ 3,305.61	
US Treasury	912828YV6	US Treasury Note	1.50%	11/15/2023	700,000.00	673,667.97	(26,332.03)				11/30/2024	5.26%	\$ 10,930.33	\$ 22,165.65	\$ 14,975.65	
Total Investments "Matured"																\$ 20,888.78
Total Interest FY 24_25 Matured and Current																\$ 1,426,003.79
<b>Maturity Profile</b>																

Town of Los Gatos  
 Investment Transaction Detail  
 December 31, 2024

Date	Cusip/Id	Description	Transaction Type	Settlement Date	Par	Coupon	Maturity Date	Price	Principal	Interest	Transaction Total
12/3/2024	91282CFL0	USA TREASURY 3.875% 30SEP2029	PURCHASE	12/3/2024	1,100,000.00	3.875%	9/30/2029	98.92	1,088,144.31	7,494.51	1,095,638.82
12/2/2024	912828YV6	USA TREASURY 1.5% 30NOV2024	REDEMPTION	12/2/2024	700,000.00	1.500%	11/30/2024	100.00	700,000.00	-	700,000.00
12/3/2024	Cash-USD	Cash-USD	SHORT TERM INVESTMENT FUND INCOME	12/3/2024	1,507.06	0.000%		100.00	-	-	1,507.06
12/12/2024	3130B1BT3	FEDERAL HOME LOAN BANK 4.875% 12JUN2026	BOND INTEREST	12/12/2024	1,150,000.00	4.875%	6/12/2026	-	-	33,637.50	33,637.50
12/16/2024	46625HRS1	JPMORGAN CHASE & CO 3.2% 15JUN2026 (CALLABLE 15MAR26)	BOND INTEREST	12/15/2024	500,000.00	3.200%	6/15/2026	-	-	8,000.00	8,000.00
12/16/2024	91282CGA3	USA TREASURY 4% 15DEC2025	BOND INTEREST	12/15/2024	2,100,000.00	4.000%	12/15/2025	-	-	42,000.00	42,000.00
12/23/2024	3130AQF65	FEDERAL HOME LOAN BANK 1.25% 21DEC2026	BOND INTEREST	12/21/2024	1,300,000.00	1.250%	12/21/2026	-	-	8,125.00	8,125.00
12/31/2024	912828ZW3	USA TREASURY 0.25% 30JUN2025	BOND INTEREST	12/31/2024	350,000.00	0.250%	6/30/2025	-	-	437.50	437.50
12/31/2024	91282CCH2	USA TREASURY 1.25% 30JUN2028	BOND INTEREST	12/31/2024	900,000.00	1.250%	6/30/2028	-	-	5,625.00	5,625.00
12/31/2024	91282CEW7	USA TREASURY 3.25% 30JUN2027	BOND INTEREST	12/31/2024	1,000,000.00	3.250%	6/30/2027	-	-	16,250.00	16,250.00
12/31/2024	91282CJR3	USA TREASURY 3.75% 31DEC2028	BOND INTEREST	12/31/2024	1,200,000.00	3.750%	12/31/2028	-	-	22,500.00	22,500.00

**Town of Los Gatos**  
**Insight ESG Ratings as of December 31, 2024**

Security Description	Maturity Date	Par/Shares	S&P Rating	Moody Rating	Insight ESG Rating	Environment	Social	Governance
AMERICAN HONDA FINANCE 4.95% 09JAN2026	1/9/2026	\$ 1,000,000	A-	A3	3	3	3	3
PEPSICO INC 2.85% 24FEB2026 (CALLABLE 24NOV25)	2/24/2026	\$ 1,000,000	A+	A1	2	2	3	3
HOME DEPOT INC. 3% 01APR2026 (CALLABLE 01JAN2026)	46113	\$ 1,000,000	A	A2	3	3	3	3
JPMORGAN CHASE & CO 3.2 15JUN2026 (CALLABLE 15MAR26)	46188	\$ 500,000	A	A1	3	2	3	4
APPLE INC. 2.9% 12SEP2027 (CALLABLE 12JUN27)	9/12/2027	\$ 1,300,000	AA+	Aaa	5	1	4	5
TOYOTA MOTOR CREDIT CORP 5.45% 10NOV2027	11/10/2027	\$ 1,600,000	A+	A1	3	2	3	4
AMERICAN HONDA FINANCE 4.7% 12JAN2028	1/12/2028	\$ 600,000	A-	A3	3	3	3	3
PNC BANK NA 3.25% 22JAN2028 (CALLABLE 01 FEB28)	1/22/2028	\$ 1,000,000	A	A2	3	2	3	3
COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	3/1/2028	\$ 500,000	A+	Aa3	3	2	3	3
US BANCORP 4.548% 22JUL2028 (CALLABLE 22JUL27)	7/22/2028	\$ 1,000,000	A	A3	4	3	4	4
JPMORGAN CHASE & CO 4.851% 25JUL2028 (CALLABLE 25JUL28)	7/25/2028	\$ 1,400,000	A	A1	3	2	3	4
CISCO INC. 4.85% 26FEB2029 (CALLABLE 26JAN2029)	2/26/2029	\$ 1,000,000	AA-	A1	3	1	4	3
HOME DEPOT INC. 4.9% 15APR2029 (CALLABLE 15MAR2029)	47223	\$ 1,000,000	A	A2	3	3	3	3
CITIBANK 4.838% 06AUG2029 (CALLABLE 06JUL2029)	8/6/2029	\$ 1,250,000	A+	Aa3	3	1	3	3
<b>Total/Average</b>		<b>\$ 14,150,000</b>			<b>3.1</b>	<b>2.1</b>	<b>3.2</b>	<b>3.4</b>

\*ESG ratings are from 1 to 5, with 1 as the highest rating and 5 as the lowest. All ratings are weighted by industry rankings, based on the importance of the category within the individual industry.

## Fund Schedule

Item 2.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2024*	Increase/ (Decrease) July - November	December 2024				Estimated Fund Balance 12/31/2024*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
	<b>GENERAL FUND</b>							
	<b>Non-Spendable:</b>							
	Loans Receivable	159,000	-	-	-	-	-	159,000
	<b>Restricted Fund Balances:</b>							
	Pension	2,188,659	-	-	-	-	-	2,188,659
	Land Held for Resale	344,338	-	-	-	-	-	344,338
	<b>Committed Fund Balances:</b>							
	Budget Stabilization	6,736,781	-	-	-	-	-	6,736,781
	Catastrophic	6,736,781	-	-	-	-	-	6,736,781
	Pension/OPEB	300,000	-	-	-	-	-	300,000
	Measure G District Sales Tax	590,581	-	-	-	-	-	590,581
	<b>Assigned Fund Balances:</b>							
	Open Space	410,000	-	-	-	-	-	410,000
	Sustainability	140,553	-	-	-	-	-	140,553
	Capital/Special Projects	8,651,059	-	-	-	-	-	8,651,059
	Carryover Encumbrances	85,861	-	-	-	-	-	85,861
	Compensated Absences	1,555,478	-	-	-	-	-	1,555,478
	ERAF Risk Reserve	1,430,054	-	-	-	-	-	1,430,054
	Market Fluctuations	1,712,246	-	-	-	-	-	1,712,246
	Council Priorities - Economic Recovery	20,684	-	-	-	-	-	20,684
	<b>Unassigned Fund Balances:</b>							
111	Other Unassigned Fund Balance Reserve (Pre YE distribution)	-	(4,326,236)	4,285,430	(4,707,336)	-	-	(4,748,142)
	<b>General Fund Total</b>	31,062,075	(4,326,236)	4,285,430	(4,707,336)	-	-	26,313,933

\* Interfund transfers and Council Priorities/Economic Recovery funding allocation to be performed as part of the fiscal year end closing entries.



## Fund Schedule

Item 2.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2024*	Increase/ (Decrease) July - November	December 2024				Estimated Fund Balance 12/31/2024*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
<b>SPECIAL REVENUE</b>								
211/212	CDBG	166,653	-	-	-	-	-	166,653
222	Urban Runoff (NPDES)	754,134	(51,579)	13,641	(31,333)	-	-	684,863
231-236	Landscape & Lighting Districts	182,625	(9,971)	-	(1,822)	-	-	170,832
251	Los Gatos Theatre	171,035	114,028	8,156	(194)	-	-	293,025
711-716	Library Trusts	556,849	42,568	-	(2,271)	-	-	597,146
<b>Special Revenue Total</b>		<b>1,831,296</b>	<b>95,046</b>	<b>21,797</b>	<b>(35,620)</b>	<b>-</b>	<b>-</b>	<b>1,912,519</b>
<b>CAPITAL PROJECTS</b>								
411	GFAR - General Fund Appropriated Reserve	20,253,300	(296,122)	82,395	(1,743,920)	-	-	18,295,653
412	Community Center Development	866,281	-	-	-	-	-	866,281
421	Grant Funded Projects	(2,563,503)	(108,898)	1,675,914	(894,428)	-	-	(1,890,915)
461-463	Storm Basin Projects	3,531,248	27,775	-	(54,193)	-	-	3,504,830
471	Traffic Mitigation Projects	509,491	-	720	(720)	-	-	509,491
472	Utility Undergrounding Projects	3,584,251	7,967	-	-	-	-	3,592,218
481	Gas Tax Projects	1,928,167	582,849	152,114	(1,620,034)	-	-	1,043,096
<b>Capital Projects Total</b>		<b>28,109,235</b>	<b>213,571</b>	<b>1,911,143</b>	<b>(4,313,295)</b>	<b>-</b>	<b>-</b>	<b>25,920,654</b>
<b>INTERNAL SERVICE FUNDS</b>								
611	Town General Liability	177,876	(1,327,142)	646,317	(14,508)	-	-	(517,457)
612	Workers Compensation	586,246	(692,547)	742,076	(181,599)	-	-	454,176
621	Information Technology	2,523,347	(312,440)	193,533	(51,370)	-	-	2,353,070
631	Vehicle & Equipment Replacement	3,286,552	(91,465)	280,915	-	-	-	3,476,002
633	Facility Maintenance	960,526	(59,391)	288,077	(85,301)	-	-	1,103,911
<b>Internal Service Funds Total</b>		<b>7,534,547</b>	<b>(2,482,985)</b>	<b>2,150,918</b>	<b>(332,778)</b>	<b>-</b>	<b>-</b>	<b>6,869,702</b>
<b>Trust/Agency</b>								
942	RDA Successor Agency	(4,632,040)	(1,715,739)	-	(139)	-	-	(6,347,918)
<b>Trust/Agency Fund Total</b>		<b>(4,632,040)</b>	<b>(1,715,739)</b>	<b>-</b>	<b>(139)</b>	<b>-</b>	<b>-</b>	<b>(6,347,918)</b>
<b>Total Town</b>		<b>63,905,113</b>	<b>(8,216,343)</b>	<b>8,369,288</b>	<b>(9,389,168)</b>	<b>-</b>	<b>-</b>	<b>54,668,890</b>

\* Interfund transfers and Council Priorities/Economic Recovery funding allocation to be performed as part of the fiscal year end closing entries.

**Deposit Accounts of Interest:**

- 111-23541 General Plan Update deposit account balance \$453,983.85
- 111-23521 BMP Housing deposit account balance \$4,039,055.78



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 02/10/2025

ITEM NO: 3

Item 3.

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DATE: February 7, 2025  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: Receive the FY 2024-25 Mid-Year Budget Report

**RECOMMENDATION:**

Receive the FY 2024-25 Mid-Year Budget Report.

**DISCUSSION:**

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:  
Serve as an on-going, substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 18, 2025, the Town Council will consider the FY 2024-25 Mid-Year Budget Report and recommendations for budget adjustments (see Attachment 1). Staff will provide the Finance Commission comments to the Town Council for the February 18, 2025 meeting.

**Attachment:**

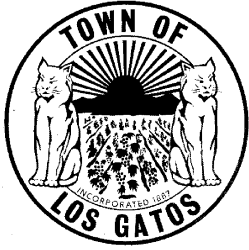
1. Town Council Draft FY 2024-25 Mid-Year Budget Report

**PREPARED BY:** Gitta Ungvari  
Finance Director

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Reviewed by: Town Manager, and Assistant Town Manager

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**TOWN OF LOS GATOS  
MID-YEAR BUDGET REPORT  
JULY 1 - DECEMBER 31, 2024**

**February 6, 2025**

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2024-25  
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year (FY) 2024-25 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

In February 2024, the Town Council established the 2024-26 Strategic Priorities. The Council's Core Goals of Quality Public Infrastructure, Public Safety, Good Governance, Fiscal Stability, Community Character, and Civic Enrichment together with its Strategic Priorities guide the preparation of both the Capital and Operating Budgets. Several Strategic Priorities are not one-time projects, but rather are ongoing commitments due to their critical significance to ensure the Town's fiscal and infrastructure stability and the safety and quality of life for Los Gatos residents, businesses, and visitors. These commitments include continuing to address the Town's fiscal challenges, implementing the Comprehensive Parking Study, and fostering emergency preparedness and community wildfire resilience. Other Strategic Priorities will position the Town for the future. Such Priorities include continuing to enhance economic and community vitality, focusing on traffic safety for all users and investing in key wildfire mitigation. Town Council will review its strategic priorities at its February 11, 2025 Special Meeting.

Staff has started budget development work for the next fiscal year, including updating the Five-Year Financial Forecast, identifying critical Town needs, contractual obligations, unfunded mandates, potential adjustments to the Fee and Fine Schedule, and other analyses. Staff is actively engaged in the FY 2025-26 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community. The Town Council is tentatively scheduled to hold a public hearing on the Proposed FY 2025-26 Budget on May 20, 2025.

During FY 2023-24, the General Fund had an excess of revenues over expenditures of \$4.0 million, excluding transfers. Transfers out exceeded transfers in by \$3.2 million. The principal purpose of the Town's interfund transfers were contributions toward capital projects (\$3.1 million) and general liability (\$0.43 million). The General Fund Balance increased by \$1.5 million to \$31 million at the close at the prior fiscal year.

For Fiscal Year 2024-25, the budget was balanced by incorporating a 4.6% vacancy factor along with an additional use of \$0.6 million in reserve funds. Furthermore, through December 31, 2025, the Council has pre-authorized an extra \$1.7 million in reserve funds to cover salaries, benefits (for both represented and non-represented employees), and other Town needs. Current year-end projections show an anticipated surplus of \$0.8 million when combining operating revenues and planned reserve usage against expenditures and reserve allocations. In total, \$3.6 million in reserve funds will be used—\$1.1 million will be transferred to capital projects, and \$2.3 million will provide one-time support for ongoing operating expenditures.

In addition, departments are requesting \$662,078 General Fund revenue budget adjustments and \$1,065,724 expenditure budget adjustments result in a total deficit of \$403,646. As discussed in greater detail later in this Report, the primary drivers of the projected deficit are the decreased revenue projection for property tax, sales tax, and franchise fee combined with increases in retiree health care expenditures, legal services, insurance premiums, and various contractually obligated services.

As mentioned earlier, the Town Council balanced the budget with a 4.6% vacancy factor. Staff continues to monitor each Department's budget because while overall Townwide General Fund savings are predicted due to vacancies, the individual Departments' current personnel expenditure budgets may not be sufficient for the remainder of the year. Staff will recommend the necessary expenditure budget adjustments as needed.

Providing services to the community in this and future fiscal years will require a strong revenue performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2025-26 budget development process will endeavor to maintain essential public services while controlling operational costs in light of the five-year fiscal forecast, which predicts operating revenue shortfalls in subsequent fiscal years with certain assumptions.

## CONTENT OVERVIEW

The remainder of this Report focuses on the General Fund and provides analyses of key revenues and expenditures, including historical data by Town Department/Service Area. The next section contains descriptions of recommended revenue and expenditure budget adjustments. The Report also includes financial summaries of other funds as well as a table of General Fund Operating Revenues Versus Operating Expenditures through the second quarter of FY 2024-25, which includes comparison information from the prior year.

## GENERAL FUND FINANCIAL SUMMARIES AND ESTIMATES

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2024-25 which includes comparison information from the prior year.

The FY 2024-25 Adopted Budget represents the original adopted budget.

The FY 2024-25 Adjusted Budget as of 12/31/2024 column includes the adopted budget and items that the Council approved during the first two quarters of the fiscal year, such as additional funding for salaries and benefits, janitorial services, road closures related to special events, and miscellaneous carryover grants from the prior fiscal year.

The FY 2024-25 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, the early trends observed through the second quarter in sales tax and property tax projections, and the proposed mid-year adjustments as listed in this report. The FY 2024-25 Estimated figures also include an analysis of potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine-tune the detailed analysis of the FY 2024-25 year-end estimated revenue and expenditure numbers, and an update will be provided with the presentation of the Proposed Fiscal Year 2025-26 Operating Budget.

The table on the next page provides details of the General Fund Revenues, Reserve Use, total Expenditures, and Reserve Allocations.

GENERAL FUND  
SUMMARY OF REVENUES AND EXPENDITURES

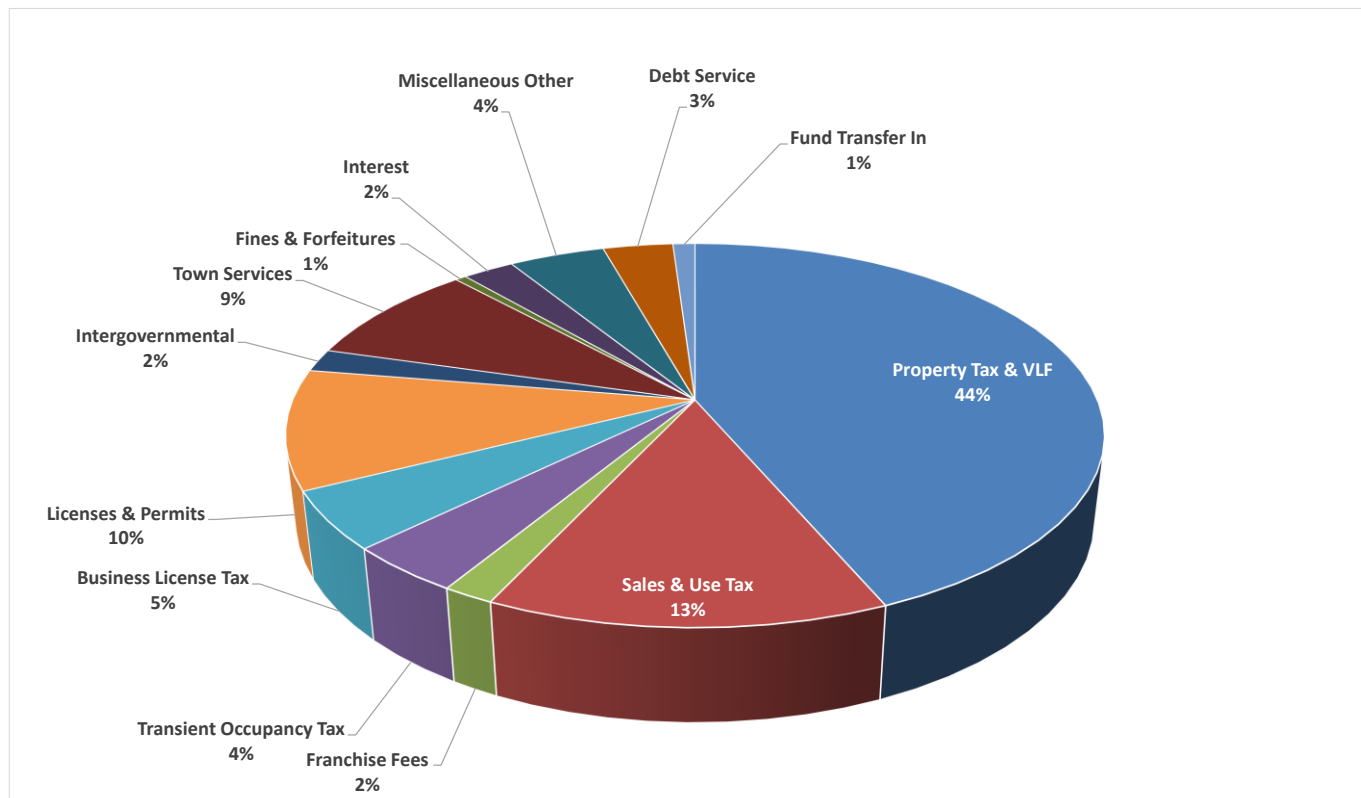
	FY 2023-24 Actuals	FY 2023-24 Q2	2Q % of FY 2023-24 Actuals	2Q % of FY 2023-24 Adjusted Budget as of 12/31/2024	FY 2024-25 Q2	FY 2024-25 Adopted Budget	FY 2024-25 Adjusted Budget as of 12/31/2024	FY 2024-25 Year End Estimates Including Proposed Mid-Year Adjustments
<b>Revenues</b>								
Property Tax	\$ 19,321,147	\$ 6,446,869	33.4%	33.1%	\$ 6,687,895	\$ 20,225,761	\$ 20,225,761	\$ 19,993,070
VLF Backfill Property Tax	4,906,019	-	0.0%	0.0%	-	4,978,930	4,978,930	5,109,000
Sales & Use Tax	6,795,037	2,250,056	33.1%	31.6%	2,082,120	6,597,351	6,597,351	6,418,412
Measure G Sales & Use Tax	1,276,698	415,004	32.5%	33.3%	428,741	1,288,166	1,288,166	1,243,852
Franchise Fees	2,547,012	1,079,717	42.4%	10.9%	113,842	1,041,330	1,041,330	1,013,330
Transient Occupancy Tax	2,367,653	819,683	34.6%	40.4%	941,711	2,332,419	2,332,419	2,332,419
Business License Tax	1,519,960	352,611	23.2%	6.3%	153,569	2,421,000	2,421,000	2,839,985
Licenses & Permits	3,993,247	1,777,085	44.5%	50.4%	2,940,729	5,867,564	5,832,140	5,789,497
Intergovernmental	1,157,225	735,280	63.5%	67.4%	796,630	1,015,439	1,182,351	1,096,157
Town Services	5,913,520	3,934,979	66.5%	92.9%	4,371,480	4,665,260	4,705,658	4,996,598
Fines & Forfeitures	480,634	226,280	47.1%	59.6%	187,733	315,200	315,200	330,800
Interest	986,489	1,809,893	183.5%	12.5%	220,695	1,764,425	1,764,425	1,427,333
GASB 31 to Market	1,712,246	-	0.0%	-	-	-	-	-
Use of Property	34,722	-	0.0%	-	-	-	-	-
Miscellaneous Other	516,081	828,976	160.6%	24.0%	521,056	1,693,904	2,170,057	2,640,919
Park Construction Tax	5,520	-	-	-	1,770	7,000	7,000	7,000
Subscription	706,713	-	-	-	-	-	-	-
Debt Service - Entry Eliminated for ACFR	1,894,550	-	0.0%	0.0%	-	1,902,300	1,902,300	1,902,300
Unrestricted Fund Tracking - Entry Eliminated for ACFR	458,000	-	-	-	-	-	-	-
Pension Trust Income - Entry Eliminated for ACFR	690,000	-	-	-	-	-	-	-
Measure G for Operations - Entry Eliminated for ACFR	620,044	-	-	-	-	-	-	-
Proceeds for Sales of Assets	223	-	0.0%	-	-	-	-	-
Fund Transfer In	564,910	114,499	20.3%	0.0%	-	562,411	562,411	562,411
<b>Total Revenues &amp; Transfers In</b>	<b>\$ 58,467,650</b>	<b>\$ 20,790,932</b>	<b>36%</b>	<b>34%</b>	<b>\$ 19,447,971</b>	<b>\$ 56,678,460</b>	<b>\$ 57,326,499</b>	<b>\$ 57,703,083</b>
<b>Use of Other Funding Sources:</b>								
Use of Reserves - Capital/Special Projects - Capital	\$ 1,615,000	\$ -	-	-	\$ -	\$ 1,110,000	\$ 1,110,000	\$ 1,110,000
Use of Reserves - Capital/Special Projects - other	-	-	-	-	-	33,000	1,683,569	1,683,569
Use of Reserves - Pension/OPEB	300,000	-	-	-	-	-	-	300,000
Use of Reserves - Accumulated Measure G	-	-	-	-	-	568,051	568,051	568,051
Use of Reserves - ERAF Risk Reserve	-	-	-	-	-	-	-	-
Use of Reserves - Carry Forward Encumbrances	-	-	-	-	-	-	85,861	-
Council Priorities - Economic Recovery	1,535,930	-	-	-	-	11,333	-	-
<b>Total Other Funding Sources</b>	<b>\$ 3,450,930</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 1,722,384</b>	<b>\$ 3,447,481</b>	<b>\$ 3,661,620</b>
<b>Total Revenues and Use of Reserves</b>	<b>\$ 61,918,580</b>	<b>\$ 20,790,932</b>	<b>34%</b>	<b>32%</b>	<b>\$ 19,447,971</b>	<b>\$ 58,400,844</b>	<b>\$ 60,773,980</b>	<b>\$ 61,364,703</b>
<b>Expenditures</b>								
Town Council	\$ 196,366	\$ 98,255	50.0%	49.6%	104,604	\$ 206,236	\$ 210,994	\$ 219,937
Attorney	751,616	336,063	44.7%	40.8%	398,950	943,589	978,732	1,071,653
Administrative Services	5,877,880	3,144,181	53.5%	46.1%	3,163,903	6,397,312	6,861,627	6,739,059
Non- Departmental	2,747,161	2,759,556	100.5%	31.1%	1,617,207	5,118,380	5,203,999	5,453,907
Community Development	5,246,730	2,559,684	48.8%	42.7%	2,632,401	5,577,309	6,161,824	6,491,635
Police	20,718,777	9,732,572	47.0%	44.8%	10,268,293	22,021,478	22,895,849	21,300,796
Parks & Public Works	9,789,656	4,589,535	46.9%	46.2%	4,927,283	10,394,394	10,653,984	11,127,851
Library	3,253,386	1,669,629	51.3%	49.7%	1,719,732	3,398,712	3,458,657	3,542,183
Capital Outlay	708,302	-	-	-	-	-	-	-
Principal	225,370	-	-	-	39,008	156,034	156,034	156,034
Interest and Fees	3,716	-	-	-	-	-	-	-
<b>Total Department Expenditures</b>	<b>\$ 49,518,960</b>	<b>\$ 24,889,475</b>	<b>50%</b>	<b>44%</b>	<b>\$ 24,832,373</b>	<b>\$ 54,213,444</b>	<b>\$ 56,581,700</b>	<b>\$ 56,103,055</b>
Debt Service - Entry Eliminated for ACFR	\$ 1,894,550	\$ -	0.0%	0.0%	\$ -	\$ 1,902,300	\$ 1,902,300	\$ 1,902,300
Unrestricted Fund Tracking - Entry Eliminated for ACFR	458,000	-	-	-	-	-	-	-
Transfer to Pension Trust Fund - Entry Eliminated for ACFR	690,000	-	-	-	-	-	-	-
Measure G Transfer - Entry Eliminated for ACFR	620,044	-	-	-	-	-	-	-
Transfers Out	3,752,325	-	0.0%	0.0%	-	1,110,000	1,110,000	1,110,000
<b>Total Additional Non-Departmental Expenditures</b>	<b>\$ 7,414,919</b>	<b>\$ -</b>	<b>0%</b>	<b>0%</b>	<b>\$ -</b>	<b>\$ 3,012,300</b>	<b>\$ 3,012,300</b>	<b>\$ 3,012,300</b>
<b>Total Operating Expenditures</b>	<b>\$ 56,933,879</b>	<b>\$ 24,889,475</b>	<b>44%</b>	<b>42%</b>	<b>\$ 24,832,373</b>	<b>\$ 57,225,744</b>	<b>\$ 59,594,000</b>	<b>\$ 59,115,355</b>
Allocate to Budget Stabilization/Catastrophic Reserve	-	-	-	-	-	-	-	-
Allocate to Market Fluctuation	1,712,246	-	-	-	-	-	-	-
Allocate to ERAF Risk Reserve	740,446	-	-	-	-	785,100	785,100	785,100
Allocate to Carryover Encumbrances	48,163	-	-	-	-	-	-	-
Allocate to Pension/OPEB Reserve	300,000	-	-	-	-	-	-	-
Allocate to Restricted Pension Trust	690,000	-	-	-	-	390,000	390,000	690,000
<b>Excess (Deficiency) of Revenues Over Expenditures after Reserve Allocation</b>	<b>\$ 2,924,292 **</b>	<b>\$ (4,098,543) *</b>			<b>\$ (5,384,402) *</b>	<b>\$ -</b>	<b>\$ 4,880</b>	<b>\$ 774,248</b>

\*FY 2023-24 and FY 2024-25 2Q Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

\*\* This schedule includes fund balance uses. Total Revenues and Transfers In (\$58,467,650) minus Total Operating Expenditures (\$56,933,879) equals \$1,533,770 with rounding.

## GENERAL FUND - KEY REVENUE ANALYSIS FY 2024-25

The following information provides a recap of the General Fund budgeted significant revenue sources, including estimated year end collection as of the second quarter ending December 31, 2024. Staff is monitoring developments in each major revenue source closely for potential adjustments to budgeted revenues as recommended in this Report.



### Property Tax and Motor Vehicle in Lieu Fee (VLF)

Property tax and VLF are the single largest revenue sources for the Town and comprise approximately 44.1% of total Town General Fund estimated revenues for FY 2024-25. Property tax is levied by the Santa Clara County Assessor’s Office at 1% of a property’s assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor annually thereafter. However, when property changes hands or new construction occurs, the property is then reassessed at its current market value.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate indicates \$102,621 decrease in estimated collection than the Adopted Budget. The decrease is a combined effect of lower-than-expected secured property tax estimates combined with the increase with the Motor Vehicle in Lieu (VLF) Property tax collection.

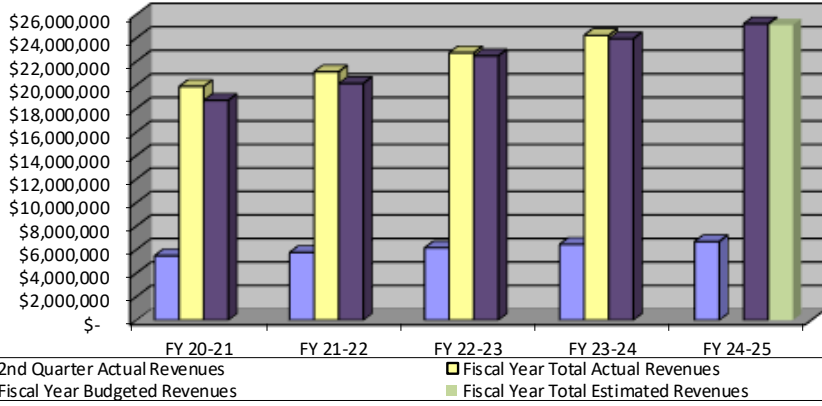
The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the counties, cities, and special districts. During the last couple of years, the Santa Clara County redistribution formula was contested by the State, and additional risk raised from State Controller’s audit findings for Marin County. The Town received the full amount since FY 2021-22; however, the Santa Clara County Assessor’s Office recommended reserving certain percentage based on the risk. According to the most recent (January 2025) communication from the Santa Clara State Controller Office the risk remains for the State Controller Office Audit findings that varies from 20% to 22% for the Town. Estimated at risk amounts and the Town Actual and Estimates ERAF Risk Reserves are presented below. The Town Estimated ERAF Risk Reserve is \$1,215,154 as of June 30, 2025. With the FY 2024-25 budget adoption Council action \$1,000,000 of the ERAF Risk Reserve was transferred to the Pension/OPEB Reserve. The total reserve amount of \$2,215,154 is still below the Town’s estimated risk amount of \$2,558,139, therefore, staff recommends continuing to reserve 30% of the anticipated FY 2024-25 ERAF proceeds.

	FY 2020-21 Actual	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Estimated	Total \$
<b>Excess ERAF</b>	\$ 2,043,321	\$ 2,371,984	\$ 2,298,692	\$ 2,534,820	\$ 2,617,000	
<i>According to Santa Clara County State Controller Office January 2025 Communication</i>						
<b>State Controller Audit Finding Risk %</b>	22%	22%	22%	22%	20%	
<b>State Controller Audit Finding Risk (\$)</b>	\$ 449,531	\$ 521,836	\$ 505,712	\$ 557,660	\$ 523,400	\$ 2,558,139
<b>Town ERAF Risk Reserve as of 6/30/2024</b>						\$ 1,430,054
Estimated Addition to the Reserve - 30% of the FY 2024-25 proceeds						\$ 785,100.00
Allocation of the ERAF Risk Reserve to Pension/OPEB Reserve per June 4, 2024 Council Action						\$ (1,000,000.00)
<b>Town Estimates ERAF Risk Reserve as of 6/30/2025</b>						\$ 1,215,154.00

Property tax distributions are largely received in the third and fourth quarters. Second quarter receipts are trending similar to those received during the second quarter of the previous fiscal year and are at 27% of budgeted totals. Based on current County projections, staff recommends a \$102,621 decrease in estimated General Property Tax and Motor Vehicle in Lieu Fee collections.



### Property Tax and VLF - Quarterly and Annual Revenues 5-Year History



	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
2nd Quarter Actual Revenues	\$ 5,481,928	\$ 5,761,081	\$ 6,155,317	\$ 6,446,869	\$ 6,687,895
Fiscal Year Total Actual Revenues	\$ 19,878,834	\$ 21,129,080	\$ 22,743,088	\$ 24,227,166	
Fiscal Year Total Estimated Revenues					\$ 25,102,070
Fiscal Year Budgeted Revenues	\$ 18,705,325	\$ 20,138,320	\$ 22,484,118	\$ 23,938,717	\$ 25,204,691
2nd Quarter Percent of Total	28%	27%	27%	27%	27%
<b>Recommended Budget Revision</b>					<b>\$ (102,621)</b>

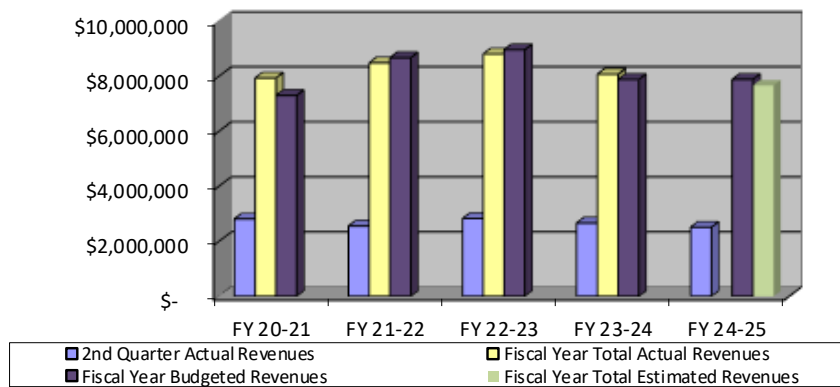
Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 13.5% of budgeted General Fund projected revenues for FY 2024-25. The Town currently receives 1.125 cents for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents’ approved ballot Measure G in 2018 enacting a one-eighth cent (0.125%) district sales tax for 20 years.

Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town’s consultant, MuniServices. In addition to brick-and-mortar sales tax generation, the MuniServices estimates include several online sales tax projections. The 2018 Wayfair Decision resulted in e-commerce vendors utilizing the Amazon platform to collect sales tax based on destination; however, items shipped directly from Amazon fulfillment centers are collecting sales tax based on the point of distribution. Regular sales tax collected through online transactions are distributed through the Santa Clara County pool for which the Town receives a pro rata share of the sales tax generated in Santa Clara County for that particular quarter. The Town directly receives the one-eighth district tax portion of the sales tax generated by the residents of Los Gatos. Current total sales tax estimates include \$6,418,412 (a \$178,939 decrease from the Adopted Budget) in proceeds from regular sales tax and \$1,243,852 (a \$44,314 decrease) in proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year and per prior Council direction, the Measure G funds are allocated at 50% for capital improvement projects and 50% for operating expenses.

While FY 2024-25 second quarter receipts are trending lower than in the same period last fiscal year, staff recommends a \$223,253 budget decrease to reflect the MuniServices current estimates.

**Sales Tax & Measure G Tax - Quarterly and Annual Revenues  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
2nd Quarter Actual Revenues	\$ 2,813,652	\$ 2,556,341	\$ 2,825,421	\$ 2,665,060	\$ 2,510,861
Fiscal Year Total Actual Revenues	\$ 7,933,604	\$ 8,483,673	\$ 8,806,477	\$ 8,071,735	\$ 7,662,264
Fiscal Year Total Estimated Revenues					\$ 7,662,264
Fiscal Year Budgeted Revenues	\$ 7,301,869	\$ 8,671,606	\$ 8,959,134	\$ 7,881,069	\$ 7,885,517
2nd Quarter Percent of Total	35%	30%	32%	33%	32%
<b>Recommended Budget Revision</b>					<b>\$ (223,253)</b>

Franchise Fees

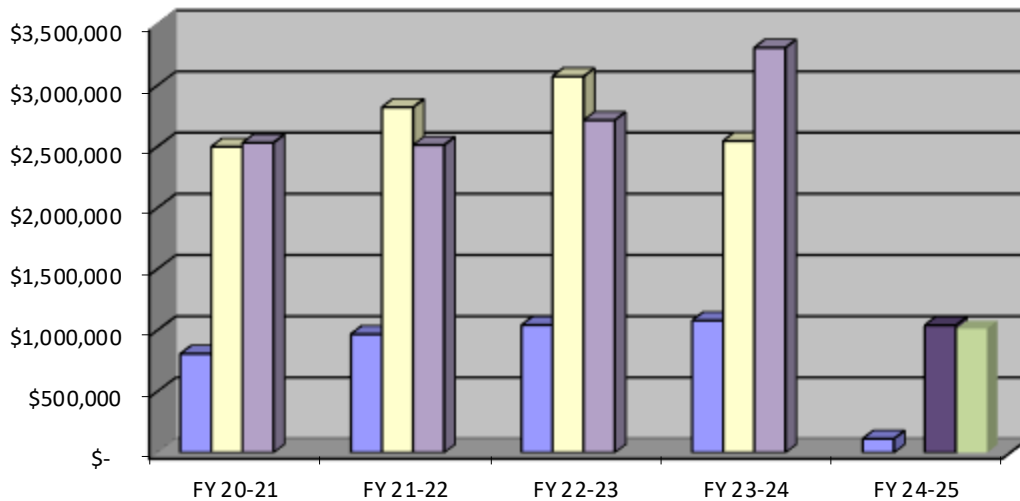
Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, and AT&T and Comcast for video services. Franchise fees represent 1.1% of projected General Fund revenues in FY 2024-25.

Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending higher than those of the second quarter in FY 2024-25.

The Town has a seat on the Board of the West Valley Solid Waste Management Authority (WVSWMA), a Joint Powers Authority (JPA) that manages the solid waste contracts. The JPA recently conducted a Franchise Fee Valuation Study. Based on the study, the new agreement reclassified the Franchise Fee Payment to Encroachment Permit since the collection vehicles utilize Town streets with the FY 2024-25 Adopted Budget. While collections are estimated to stay at prior year levels, the revenue shifted from Franchise Fees to Licenses and Permits.

Comcast franchise fees trending lower than budgeted since streaming services are gaining popularity compared to broadcasting services. Staff is recommending a \$28,000 budget decrease in this category.

**Franchise Fees - Quarterly and Annual Revenues  
5-Year History**



■ 2nd Quarter Actual Revenues	■ Fiscal Year Total Actual Revenues
■ Fiscal Year Budgeted Revenues	■ Fiscal Year Total Estimated Revenues

	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
2nd Quarter Actual Revenues	\$ 807,833	\$ 968,181	\$ 1,044,055	\$ 1,079,717	\$ 113,842
Fiscal Year Total Actual Revenues	\$ 2,499,463	\$ 2,822,515	\$ 3,074,624	\$ 2,547,011	
Fiscal Year Total Estimated Revenues					\$ 1,013,330
Fiscal Year Budgeted Revenues	\$ 2,532,289	\$ 2,514,020	\$ 2,716,470	\$ 3,308,703	\$ 1,041,330
2nd Quarter Revenue Percent of Total	32%	34%	34%	42%	11%

**Recommended Budget Revision** **\$ (28,000)**

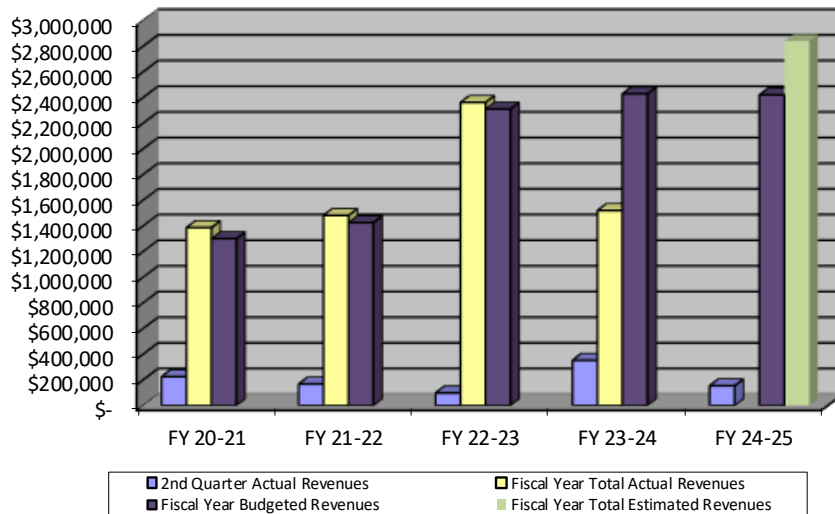
Business License Tax

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity. In November 2022, Los Gatos voters approved Measure J, which modernized the Town’s business license tax program. This was the first update to the program since 1991, strengthening funding for core Town services that are enjoyed by Town businesses. Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120% increase in e-commerce, manufacturing, wholesaling, and jobbing gross receipts. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$1,365. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are prorated by quarter.

The Town is partnering with HdL Companies (HdL) to provide dedicated business license support to Los Gatos businesses. The Town’s business license application and renewal process is now streamlined by offering online business license applications and renewals. FY 2025-26 collection is forecasted at 2.4 million in line with the FY 2022-23 actual collections.

Staff anticipates collecting the majority of the business license revenue during the third quarter. Business license tax revenue projections provided by HdL are trending higher than the adopted budget due to the timing of the actual business license tax received across fiscal years. Staff is recommending a \$418,985 increase to this revenue source.

**Business License Tax - Quarterly and Annual Revenues  
5-Year History**



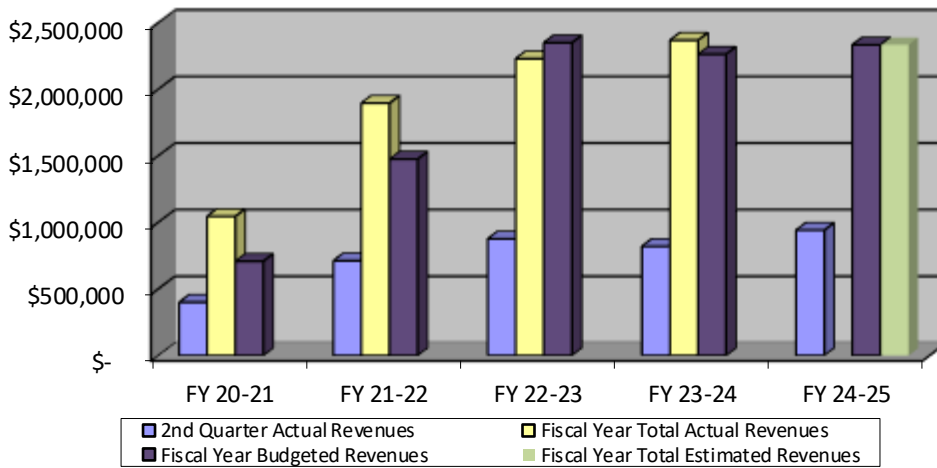
	FY 20-21	FY 21-22	FY 22-23	FY 23-24	FY 24-25
2nd Quarter Actual Revenues	\$ 224,388	\$ 167,942	\$ 97,974	\$ 352,611	\$ 153,569
Fiscal Year Total Actual Revenues	\$ 1,386,943	\$ 1,481,667	\$ 2,361,862	\$ 1,519,960	
Fiscal Year Total Estimated Revenues					\$ 2,839,985
Fiscal Year Budgeted Revenues	\$ 1,300,000	\$ 1,425,000	\$ 2,310,110	\$ 2,429,419	\$ 2,421,000
2nd Quarter Revenue Percent of Total	53%	53%	59%	23%	5%
<b>Recommended Budget Revision</b>					<b>\$ 418,985</b>

Transient Occupancy Tax

TOT is an important revenue source for the Town and comprises approximately 4% of the total Town's estimated revenues in the amount of \$2.3 million for FY 2024-25. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase the TOT from 10% to 12% during the November 8, 2016 election.

During the pandemic, TOT experienced the most significant percentage decline relative to historically adopted budgets. Due to a significant rebound in leisure “staycation” travel and modest improvements in business travel, TOT collections are trending slightly higher than the prior year due to the variance in timing of the payment received. Overall revenue collection is trending with budget; staff does not recommend a change to this category this time.

**TOT - Quarterly and Annual Revenues  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
2nd Quarter Actual Revenues	\$ 399,620	\$ 711,861	\$ 875,715	\$ 819,683	\$ 941,711
Fiscal Year Total Actual Revenues	\$ 1,044,820	\$ 1,895,064	\$ 2,228,190	\$ 2,367,653	
Fiscal Year Total Estimated Revenues					\$ 2,332,419
Fiscal Year Budgeted Revenues	\$ 707,723	\$ 1,475,000	\$ 2,348,547	\$ 2,262,528	\$ 2,332,419
2nd Quarter Revenue Percent of Total	38%	38%	39%	35%	40%
<b>Recommended Budget Revision</b>					<b>\$ 0</b>

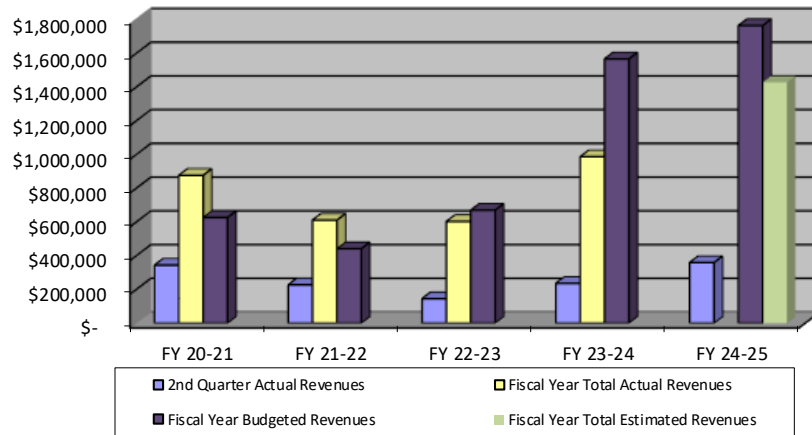
Interest Income

The Town earns interest income by investing monies not immediately required for daily operations in a number of fixed income and money market instruments. These investments are made within the parameters stated in the Town Council’s Investment Policy and State regulation. The Town’s investment goal is to achieve a competitive rate of return while maintaining sufficient liquidity and protecting the safety of its funds. Interest income revenue is primarily dependent on two factors: the cash balance in the Town’s investment portfolio and the yield on those funds.

As of December 31, 2024, the Town’s weighted portfolio yield for investments under management was 4.44%, which was 1 basis point above the Local Agency Investment Fund (LAIF) yield of 4.43% for the same reporting period. Currently, the LAIF portfolio’s weighted average maturity (WAM) is 257 days versus the Town’s longer WAM of 677 days. The longer WAM for Town assets under management reflects the Town’s strategy to take advantage of higher yields associated with longer maturities balanced with shorter-term yields available on investments held with the State’s LAIF. The Town’s weighted average rate of return on investments under management of 4.44% at the close of December was 1 basis point lower when compared to the prior month’s return of 4.45% reported as of November 30, 2024.

While interest is trending with budget, at the close of the prior fiscal year, the General Fund cash balance was approximately 60% of the total cash balance, 10% lower than prior year. The General Fund proportionate share of interest is decreasing, while other funds interest share is increasing with the same amount. Interest allocations are finalized upon the final close of the fiscal year based on the actual cash balances as of June 30, 2025. Staff is recommending \$337,092 revenue budget decrease in the General Fund interest collection.

**Interest - Quarterly and Annual Revenues  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
2nd Quarter Actual Revenues	\$ 343,813	\$ 227,164	\$ 145,003	\$ 235,922	\$ 358,969
Fiscal Year Total Actual Revenues	\$ 876,460	\$ 610,975	\$ 602,592	\$ 986,489	
Fiscal Year Total Estimated Revenues					\$ 1,427,333
Fiscal Year Budgeted Revenues	\$ 626,409	\$ 441,233	\$ 670,021	\$ 1,566,384	\$ 1,764,425
2nd Quarter Revenue Percent of Total	39%	37%	24%	24%	20%
<b>Recommended Budget Revision</b>					<b>\$ (337,092)</b>

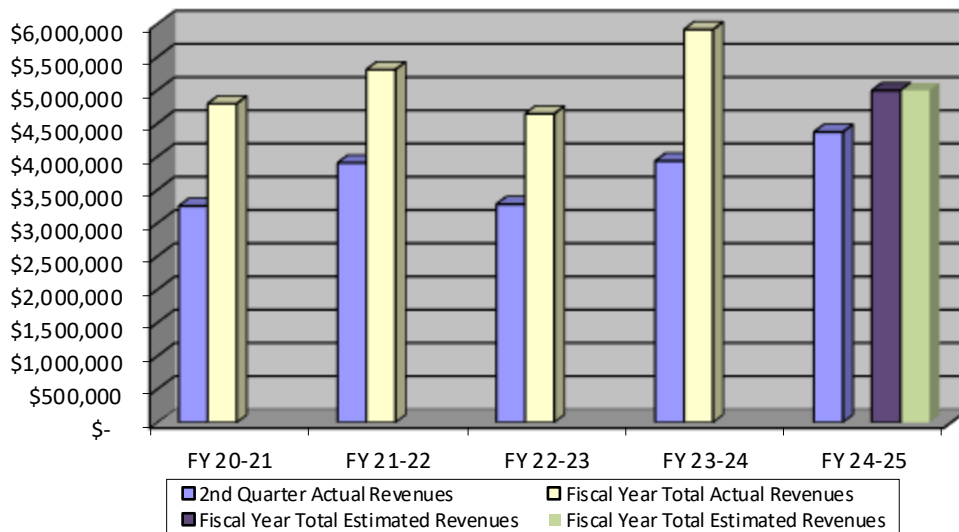
\* GASB 31 Market Adjustment and GASB 87 Lease Interest are not Included

Charges for Services

Town Service revenues consist primarily of planning, building, inspections, and engineering fees assessed on local building and development activity. Development fees and charges are assessed based on cost recovery formulas, which reflect approximate costs of providing these regulatory services. This category includes charges for the School Resource Officer and crossing guard services.

Second quarter Town Service revenues, specifically Charges for Services, are trending higher than in the second quarter compared to the previous fiscal year. Typically, development fees are collected in advance for projects and recognized as revenue in the fiscal year the work is performed. Fiscal Year estimated revenues includes all revenue line items in this category. Staff recommends a \$59,275 budget increase in selected items to reflect increased activities in planning and engineering services as explained in the Budget Adjustment section of this Report.

**Charges for Services - Quarterly and Annual Revenues  
5-Year History**



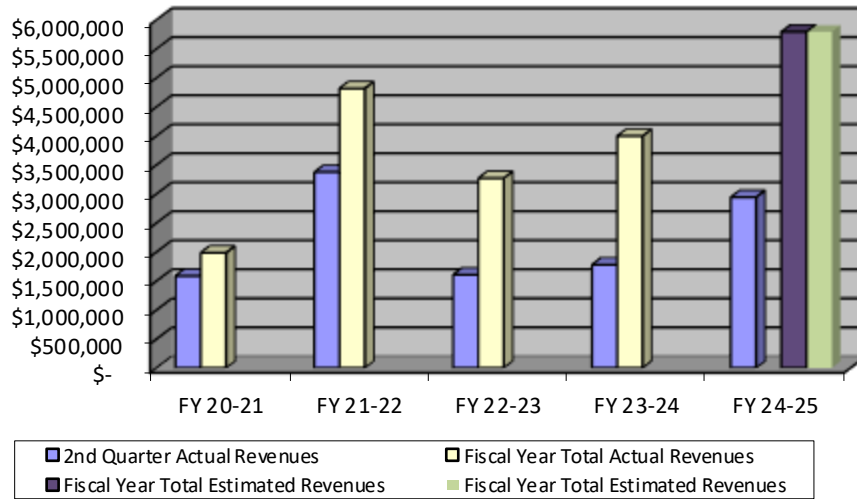
	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
2nd Quarter Actual Revenues	\$ 3,258,027	\$ 3,906,577	\$ 3,284,766	\$ 3,934,979	\$ 4,371,480
Fiscal Year Total Actual Revenues	\$ 4,797,770	\$ 5,310,271	\$ 4,646,705	\$ 5,913,520	
Fiscal Year Total Estimated Revenues					\$ 4,996,598
Fiscal Year Budgeted Revenues	\$ 4,038,119	\$ 4,249,239	\$ 5,540,465	\$ 4,715,797	\$ 4,705,658
2nd Quarter Revenue Percent of Total	68%	74%	71%	67%	87%
<b>Recommended Budget Revision</b>					<b>\$ 59,275</b>

Licenses and Permits

Licenses and Permits consist mainly of planning and building permit fees which are collected by the Town to offset administrative costs associated with evaluating development proposals to ensure compliance with codes and policies.

Second quarter License and Permit revenue is trending 50% of budgeted revenue. Fiscal Year estimated revenues includes all revenue line items in this category. Staff recommends a \$254,073 increase in selected items in this category as explained in the next section of this Report.

**Licenses & Permits - Quarterly and Annual Revenues  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
2nd Quarter Actual Revenues	\$ 1,584,098	\$ 3,373,287	\$ 1,602,633	\$ 1,777,085	\$ 2,940,729
Fiscal Year Total Actual Revenues	\$ 1,984,400	\$ 4,814,650	\$ 3,268,498	\$ 3,993,247	
Fiscal Year Total Estimated Revenues					\$ 5,789,497
Fiscal Year Budgeted Revenues	\$ 2,889,898	\$ 3,052,907	\$ 2,830,574	\$ 3,255,155	\$ 5,832,140
2nd Quarter Revenue Percent of Total	80%	70%	49%	45%	50%
<b>Recommended Budget Revision</b>					<b>\$ 254,073</b>



**GENERAL FUND – EXPENDITURE ANALYSIS**

For FY 2024-25, General Fund Operating expenditures (not including debt payments and transfers out) are programmed at \$56.6 million. The delivery of Town services is highly dependent on talent which comprises 68.5% of budgeted General Fund operating expenditures for FY 2024-25. During the fiscal year, the Town Council has approved several budget adjustments, which are tracked against the Adopted Budget. The net effect is an Adjusted Budget. General Fund expenditure totals are trending in accordance with the Adjusted Budget, with total operational expenditures at the end of the second quarter at or about 44% of the Adjusted Budget. With six months of data now available, staff expects that the individual Departments’ current expenditure budgets may not be sufficient for the remainder of the year. If needed, staff will recommend the necessary expenditure budget adjustments which may require future Council action.

As with most municipalities, services are provided directly by employees to the Town’s residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits are a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 47% of budgeted salaries, overtime is trending 122% respectively to the adopted budget, while pension benefits and other benefits are trending at 46% and 43% respectively to the Adjusted Budget.

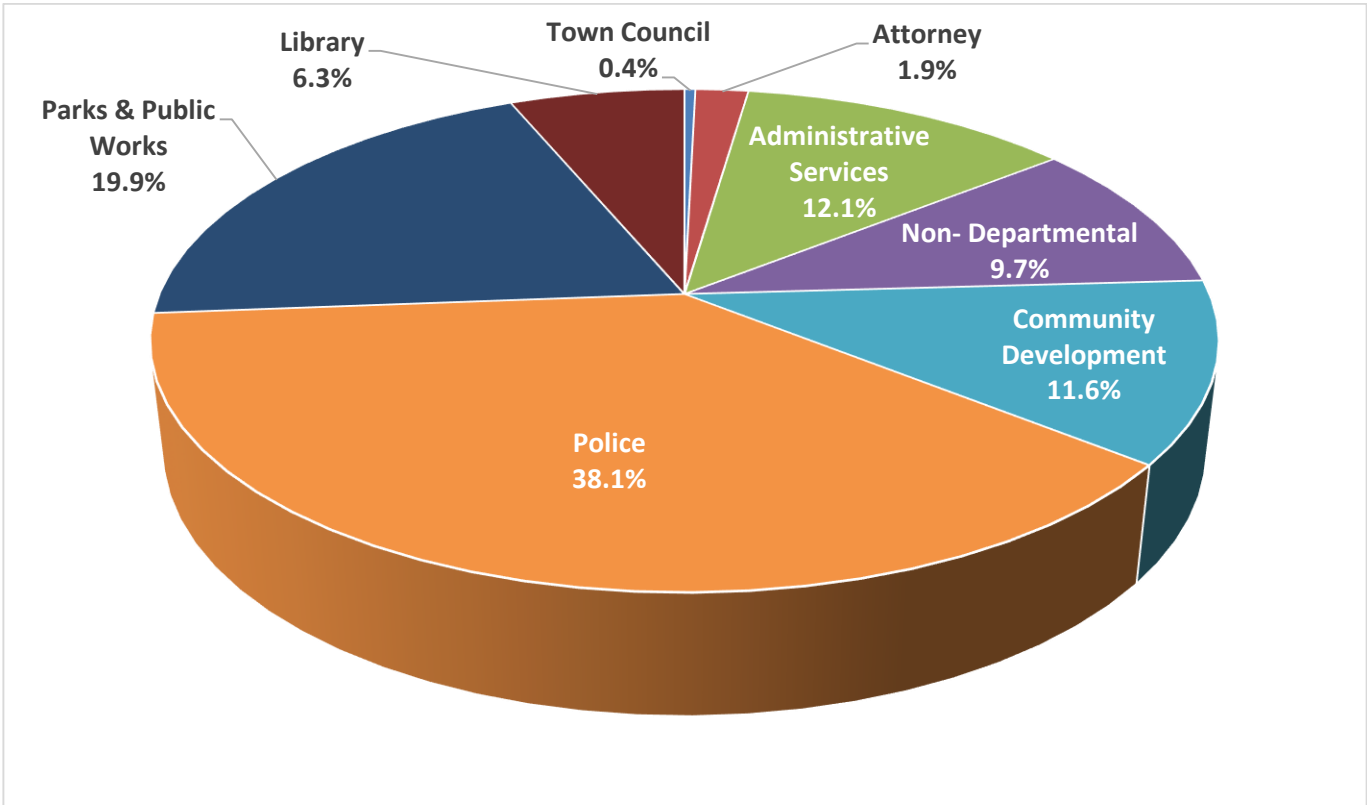
General Fund Salaries & Benefits							
	FY 2023-24 Actuals	FY 2023-24 2Q	2Q % of FY 2023-24 Actuals	2Q % of FY 2024-25 Adjusted Budget	FY 2024-25 2Q	FY 2024-25 Estimated	FY 2024-25 Adjusted Budget
Salaries	\$ 21,541,677	\$ 10,306,661	48%	47%	\$ 10,928,352	\$ 22,648,282	\$ 23,407,866
Overtime	\$ 1,322,849	\$ 546,899	41%	122%	\$ 728,999	\$ 1,498,641	\$ 599,171
Pension Benefits	\$ 7,431,198	\$ 3,652,570	49%	46%	\$ 4,051,720	\$ 8,271,829	\$ 8,786,402
Other Benefits	\$ 4,274,670	\$ 2,044,327	48%	43%	\$ 2,413,604	\$ 4,879,094	\$ 5,647,633
<b>Total Salaries and Benefits</b>	<b>\$ 34,570,393</b>	<b>\$ 16,550,457</b>	<b>48%</b>	<b>47%</b>	<b>\$ 18,122,676</b>	<b>\$ 37,297,846</b>	<b>\$ 38,441,072</b>

The FY 2024-25 budget was balanced including 4.6% vacancy factor, while Council directed that staff continue to hire for all vacant positions. The 4.6% salary savings represents approximately \$1.8 million projected savings. Current year end general Fund salaries and benefits expenditure estimates include about \$1.1 million salary savings compared to the adjusted budget that already includes the 4.6% vacancy factor. Fully staffed Departments are trending over budget due to the 4.6% vacancy factor that was built in. Staff will continue to monitor the Salaries and Benefits and request adjustment as needed to ensure that all programs remain within its allocated budget before Fiscal Year end.

FY 2023-24 presented the first year when the budget was balanced with the 4.6% vacancy factor. The final General Fund salaries and benefits budgets of \$35,611,692, include a negative \$1,670,530 original salary savings and a positive \$714,666 budget restoration for Departments that were fully staffed. In addition, the General Fund had \$1,041,299 salaries and benefits savings. While individual Departments had various savings, the Townwide General Fund salaries and benefits savings would translate to 5.5% if all positions are budgeted without vacancy savings factors. At this time, staff recommends to keep the 4.6% vacancy factor when building the FY 2025-26 proposed budget and reevaluate the most appropriate factor to use after having two full years of actual data available.

The pie chart below represents the Departmental proportion of the Town’s General Fund estimated operating expenditures. The subsequent pages review program expenditures and any anticipated

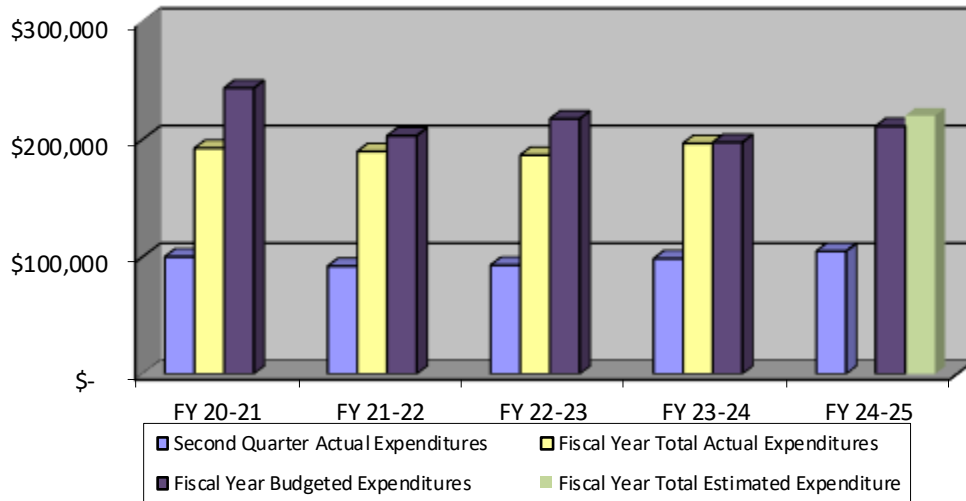
savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures, and five-year average changes per the Finance Commission's suggestion. YOY percentage changes are, in many cases, impacted by the timing of one-time expenditures that occur during the fiscal year. Historical analysis has been provided in selected cases to provide explanations for some of the fluctuations between fiscal years. The FY 2024-25 estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.



Town Council

The Town Council is the elected legislative body that represents the residents and provides policy direction for the delivery of services and capital improvements for the Town of Los Gatos. Town Council expenditures are trending higher than the same quarter in the prior year. Total estimated expenditures are also trending higher than budget due to the fact that this Department is fully staffed. Staff will monitor this program and request a budget adjustment, if necessary, before Fiscal Year end.

**Town Council - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 99,787	\$ 91,800	\$ 92,674	\$ 98,255	\$ 104,604
Fiscal Year Total Actual Expenditures	\$ 192,280	\$ 189,569	\$ 186,337	\$ 196,368	
Fiscal Year Total Estimated Expenditure					\$ 219,937
Fiscal Year Budgeted Expenditures	\$ 243,486	\$ 202,891	\$ 217,238	\$ 197,261	\$ 210,994
Second Quarter Percentage of Total	52%	48%	50%	50%	50%

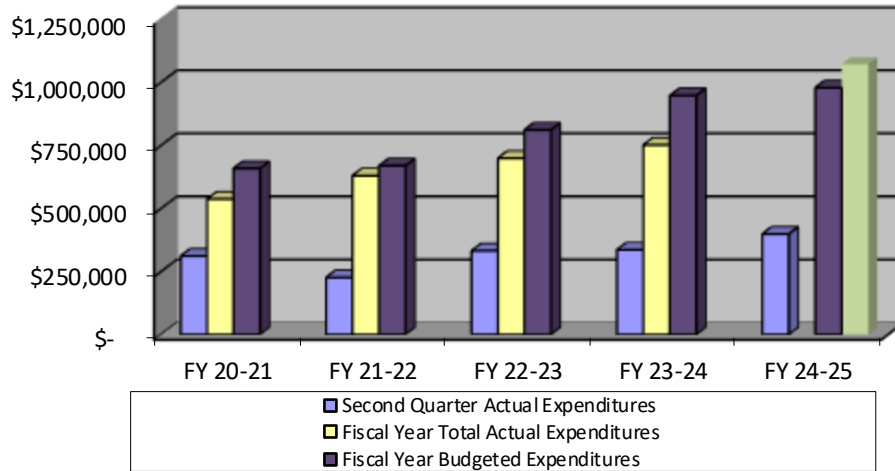
**Recommended Budget Revision** **\$ -**

YOY Percentage Changes	-6.62%	-1.41%	-1.70%	5.38%	12.00%
5-year Average Percentage Change					1.53%

Town Attorney

The Town Attorney is the legal advisor to the Town Council, Successor Agency to the former Redevelopment Agency, and Town staff. In this capacity, the office of the Town Attorney provides a wide range of legal services to ensure that Town actions and activities are legally sound. Town Attorney program expenditures are trending at 41% at the second quarter. Staff recommends a \$100,000 expenditure budget increase to provide additional legal support anticipated for the Department.

**Town Attorney - Quarterly and Annual Expenditures  
5-Year History**



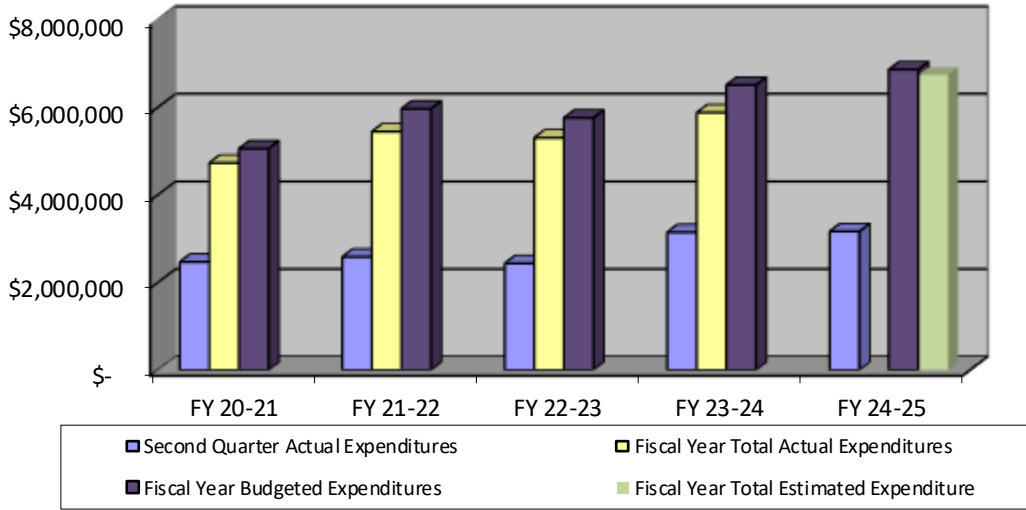
	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 311,520	\$ 226,377	\$ 332,183	\$ 336,063	\$ 398,950
Fiscal Year Total Actual Expenditures	\$ 537,296	\$ 629,935	\$ 699,143	\$ 751,614	
Fiscal Year Total Estimated Expenditure					\$1,071,653
Fiscal Year Budgeted Expenditures	\$ 658,831	\$ 669,733	\$ 811,426	\$ 947,963	\$ 978,732
Second Quarter Percentage of Total	58%	36%	48%	45%	41%
<b>Recommended Budget Revision</b>					<b>\$ 100,000</b>

Administrative Services

The Town Manager provides overall management, administration, and direction for the entire Town organization, reporting to the full Town Council. Administrative Services incorporates five key programs: Town Manager’s Office, Clerk Department, Finance Department, Human Resources Department, and Information Technology.

Administrative Services program expenditures are trending at 46% at mid-year. Staff estimates approximately \$122,568 expenditure savings in this program. Savings are anticipated in mainly staff salaries and benefits, travel and training, and office supplies. Staff requests \$10,000 expenditure budget adjustment to Council unhoused initiatives to document prior Council direction.

**Administrative Services - Quarterly and Annual Expenditures  
5-Year History**



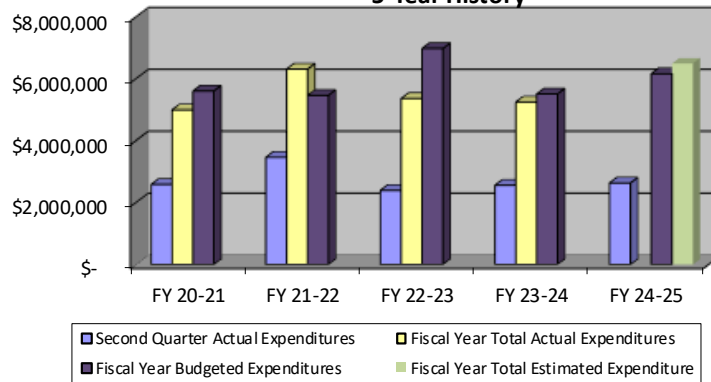
	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 2,467,813	\$ 2,583,281	\$ 2,435,224	\$ 3,144,181	\$ 3,163,903
Fiscal Year Total Actual Expenditures	\$ 4,730,360	\$ 5,441,605	\$ 5,302,277	\$ 5,877,879	
Fiscal Year Total Estimated Expenditure					\$ 6,739,059
Fiscal Year Budgeted Expenditures	\$ 5,055,847	\$ 5,965,801	\$ 5,759,393	\$ 6,506,131	\$ 6,861,627
Second Quarter Percentage of Total	52%	47%	46%	53%	46%
<b>Recommended Budget Revision</b>					<b>\$ 10,000</b>
YOY Percentage Changes	16.88%	15.04%	-2.56%	10.86%	14.65%
5-year Average Percentage Change					10.97%

Community Development Services

The Community Development Department works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the Town.

Community Development program expenditures are trending lower than the same quarter expenditures in the prior year due to current development activities in Building and Pass-Through programs. The Pass-Through program collects the required developer deposits for various review services. The Town provides those services through consultants and the consultants are paid out of the applicant’s account. At the close of a project, all remaining fees collected will be refunded to the applicant. Staff recommends expenditure budget adjustments for purchase and temporary maintenance of an affordable housing unit in the amount of \$345,367 that is offset with dedicated revenue. Staff also recommends an additional \$50,000 budget adjustment for contract planner services to assist with the current planning application workload that is offset with additional planning application fees. In addition, staff requests a \$40,000 budget decrease for contract building inspection services to reflect current building inspection activity. Staff will monitor this program and request an additional budget adjustment, if necessary, before Fiscal Year end.

**Community Development - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 2,589,502	\$ 3,460,301	\$ 2,394,537	\$ 2,559,684	\$ 2,632,401
Fiscal Year Total Actual Expenditures	\$ 4,994,391	\$ 6,313,505	\$ 5,365,410	\$ 5,246,729	
Fiscal Year Total Estimated Expenditure					\$ 6,491,635
Fiscal Year Budgeted Expenditures	\$ 5,605,215	\$ 5,461,716	\$ 6,978,617	\$ 5,509,853	\$ 6,161,824
Second Quarter Percentage of Total	52%	55%	45%	49%	43%
<b>Recommended Budget Revision</b>					<b>\$ 355,367</b>

YOY Percentage Changes	8.35%	26.41%	-15.02%	-2.21%	23.73%
5-year Average Percentage Change					8.25%

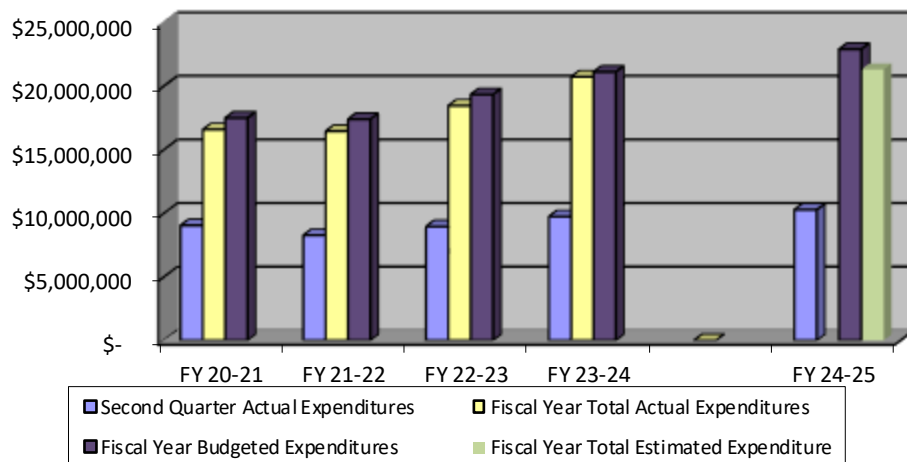
Community Development Department expenditures vary year to year based on the development activity and pass-through services.

Police Services

The Los Gatos-Monte Sereno Police Department provides Police services to the Town of Los Gatos and contractually to the City of Monte Sereno. The Department is committed to ensuring public safety with integrity, compassion, and professionalism, by providing exceptional law enforcement services, building community partnerships, and engaging the community in problem solving.

Staff is continuing to monitor Police service program revenues and expenditures. The Police Department dedicated additional resources for ongoing recruitments for open positions. Whenever feasible, open positions are filled with trainees, per diems, and temporary employees until positions are filled, which contributes to increased costs. Staff recommends \$72,130 expenditure budget decrease to match actual grant spending with grant receipts across the fiscal years. Total estimated expenditures are trending lower than budget due to partial vacancies across the Department. Staff is monitoring this program and may request additional budget adjustments, if necessary, before Fiscal Year end.

**Police - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 9,041,998	\$ 8,266,432	\$ 8,957,541	\$ 9,732,572	\$ 10,268,293
Fiscal Year Total Actual Expenditures	\$ 16,570,836	\$ 16,451,189	\$ 18,446,040	\$ 20,718,871 *	
Fiscal Year Total Estimated Expenditure					\$ 21,300,796
Fiscal Year Budgeted Expenditures	\$ 17,487,761	\$ 17,390,969	\$ 19,331,331	\$ 21,107,570	\$ 22,895,849
Second Quarter Percentage of Total	55%	50%	49%	47%	45%
<b>Recommended Budget Revision</b>					<b>\$ (72,130)</b>
YOY Percentage Changes	9.79%	-0.72%	12.13%	12.32%	2.81%
5-year Average Percentage Change					7.26%

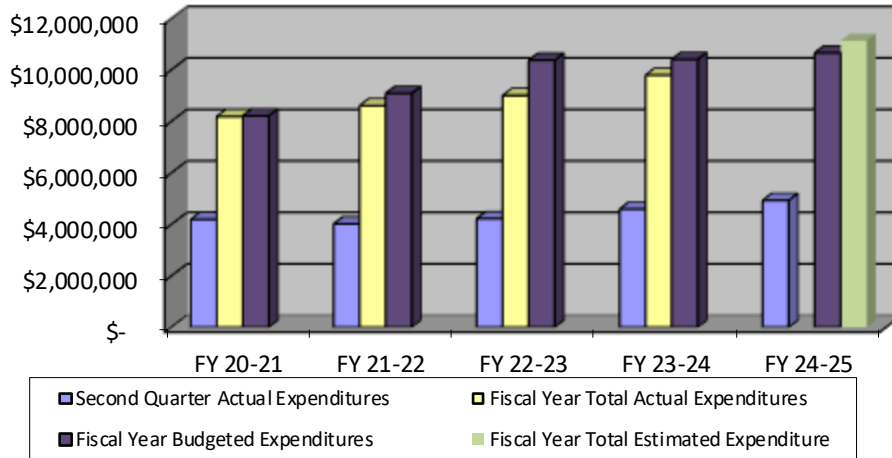
Parks and Public Works Services

The Parks and Public Works Department constructs and maintains the Town’s public parks, facilities, roadways, right-of-way, and other infrastructure. Six organizational units work in coordination to achieve the Department’s overarching goal of ensuring the Town’s facilities are safe, functional, and attractive.

The Parks and Public Works services program expenditures are trending similar to the prior year same quarter expenditures.

Total Estimated expenditures are trending higher than budget due to the fact that the Department is utilizing temporary per diem employees as needed to fill vacancies. Staff recommends an expenditure budget increase of \$139,673 mainly attributed to the additional contractual obligations toward waste management, legal, sidewalk steam cleaning, and street sweeping services. Staff will monitor this program and request an additional budget adjustment, if necessary, before Fiscal Year end.

**Parks and Public Works - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 4,185,306	\$ 4,010,181	\$ 4,215,979	\$ 4,589,535	\$ 4,927,283
Fiscal Year Total Actual Expenditures	\$ 8,179,757	\$ 8,605,455	\$ 8,998,082	\$ 9,789,656	
Fiscal Year Total Estimated Expenditure					\$ 11,127,851
Fiscal Year Budgeted Expenditures	\$ 8,209,850	\$ 9,080,662	\$ 10,368,194	\$ 10,401,796	\$ 10,653,984
Second Quarter Percentage of Total	51%	47%	47%	47%	46%
<b>Recommended Budget Revision</b>					<b>\$ 139,673</b>
YOY Percentage Changes		2.57%	5.20%	4.56%	8.80%
5-year Average Percentage Change					6.96%

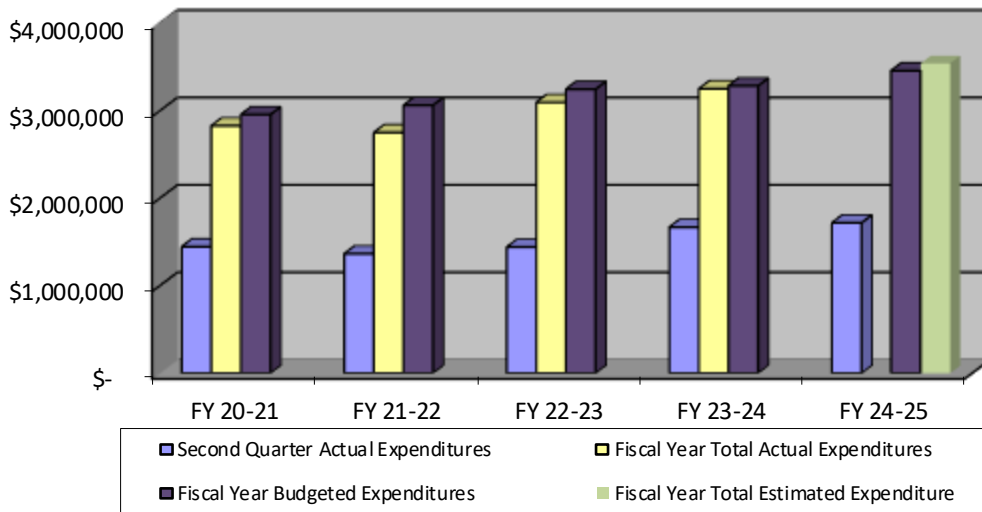


Library Services

The Los Gatos Library fosters curiosity and community connection and strives to be at the heart of an engaged and vibrant community.

Library services program expenditures are trending higher than prior year same quarter expenditures. Staff recommends a \$32,188 expenditure budget increase for general collection to match the actual grant receipt spending and other cost neutral temporary employee salary transfers between programs to better align the Department needs with the appropriate personnel. Total Estimated expenditures are also trending higher than budget due to the fact that this Department is fully staffed. Staff will monitor this program and request an additional budget adjustment, if necessary, before Fiscal Year end.

**Library - Quarterly and Annual Expenditures  
5-Year History**



	<u>FY 20-21</u>	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>
Second Quarter Actual Expenditures	\$ 1,445,899	\$ 1,365,415	\$ 1,442,417	\$ 1,669,629	\$ 1,719,732
Fiscal Year Total Actual Expenditures	\$ 2,828,873	\$ 2,752,401	\$ 3,096,485	\$ 3,253,389	
Fiscal Year Total Estimated Expenditure					\$ 3,542,183
Fiscal Year Budgeted Expenditures	\$ 2,957,531	\$ 3,062,708	\$ 3,247,731	\$ 3,285,841	\$ 3,458,657
Second Quarter Percentage of Total	51%	50%	47%	51%	50%
<b>Recommended Budget Revision</b>					<b>\$ 32,188</b>
YOY Percentage Changes	11.85%	-2.70%	12.50%	5.07%	8.88%
5-year Average Percentage Change					7.12%

## FY 2024-25 RECOMMENDED BUDGET ADJUSTMENTS

Budget adjustments are recommended for the following revenues and expenditures at the second quarter as described below:

FY2024-25 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS			
Program	Account	General Fund Revenues	
1201	411**	Property Tax	\$ (232,691) <i>Based on Santa Clara County Property Tax Estimates February 2025</i>
1201	41141	Motor Vehicle In Lieu Fee (VLF)	130,070 <i>Based on Santa Clara County Property Tax Estimates February 2025</i>
1201	41211	Sales & Use Tax	(178,939) <i>Based on MuniServices Most Likely January 2025 Sales Tax Estimates</i>
1221	41214	Measure G - District Sales Tax	(44,314) <i>Based on MuniServices Most Likely January 2025 Sales Tax Estimates</i>
1201	41611	Cable Franchise Fee	(28,000) <i>Based on Past Receipts and Current Trend</i>
1201	42542	Waste Hauler Encroachment Fees	(68,927) <i>Based on current Agreement and Rate</i>
1201	45952	Garbage Solid Waste Agreements	(86,404) <i>Based on current Agreement and Rate</i>
1201	43341	State Mandated Cost Reimbursement	95,766 <i>Funds Anticipated</i>
1201	44514	City of San Jose Animal Services Reimbursement	(22,225) <i>Based on current Agreement</i>
1201	48219	Unrestricted Fund Tracking - Made Available by ARPA Grant Receipt	(33,000) <i>Funds Expended Prior Fiscal Year</i>
1232	45964	Pension Trust Contribution	300,000 <i>Funds Anticipated from Available Reserves</i>
2101	48219	Unrestricted Fund Tracking - Made Available by ARPA Grant Receipt	9,351 <i>Funds Not Expended Prior Fiscal Year, almost Matching Expenditures</i>
2301	45219	Interest to Other Funds	(337,092) <i>Funds partially Received</i>
2301	41411	Business License Tax	418,958 <i>Funds Anticipated</i>
3201	42413	Planning Permits	300,000 <i>Funds Anticipated</i>
3201	42414	Council Appeal Fees	1,000 <i>Funds Anticipated</i>
3201	44214	Other Planning Fees	10,000 <i>Funds Anticipated</i>
3202	44412	Special Project	20,000 <i>Funds Anticipated</i>
3301	44415	Address Processing Fee	15,000 <i>Funds Anticipated</i>
3301	44422	Building Inspections	(40,000) <i>Funds are not Received, Matching Expenditures</i>
3301	48427	Building Standards SB 1473 Reimbursement	1,500 <i>Funds Anticipated</i>
3401	45111	Code Compliance - Admin Citation	10,000 <i>Funds Anticipated</i>
3501	45921	Sale of Land/Property	344,388 <i>Funds Received, Matching Expenditure</i>
4202	43336	Prop 172 - Public Safety Sales Tax	(23,900) <i>Based on MuniServices Most Likely January 2025 Sales Tax Estimates</i>
4301	48218	Measure G - District Sales Tax	(22,157) <i>Funds are not Received, Matching Tracking Expenditures</i>
5202	44214	Engineering Development Other Service Fees	20,000 <i>Funds are not Received</i>
5202	44621	Engineering Services	20,000 <i>Funds Anticipated</i>
5202	44625	Grading Inspection	17,000 <i>Funds are not Received</i>
5301	42511	Oak Meadow Park Reservation Fee	10,000 <i>Funds Anticipated</i>
5301	42515	Tree Removal Permit	10,000 <i>Funds Anticipated</i>
5301	42543	Park Vending Permit	3,000 <i>Funds Anticipated</i>
5301	44213	Special Event Reimbursement	17,000 <i>Funds Anticipated</i>
5301	45421	Donation - Benches	(3,678) <i>Funds are not Received, Matching Tracking Expenditures</i>
5302	43522	AB 939 Grant	(8,634) <i>Funds are not Received</i>
5405	45922	Insurance Claim Reimbursement	16,818 <i>Funds are Received, partially Matching Expenditures</i>
7301	45452	Friends of the Library	(10,000) <i>Decrease in Donations</i>
7801	43343	Public Library Fund Grant	32,188 <i>Grant Carryforward</i>
<b>TOTAL GENERAL FUND REVENUES</b>			<b>\$ 662,078</b>

**FY2024-25 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUNDS**

Program	Account	General Fund Expenditures		
1201	62113	Town Share of Retiree Medical	313,938	Funds are Partially Expended
1201	62119	Additional Payment to IRS Pension Trust	300,000	From Available Reserve
1201	62227	Santa Clara County - Election Fees	(85,520)	Funds are not Expended
1201	62521	Frontier Parking Lot Lease	9,522	Funds are Partially Expended
1201	63114	Animal Services	7,000	Funds are Partially Expended
1221	68218	Measure G Sales Tax - Pass Thru	(44,314)	Funds are not Expended
1301	63215	Legal Services	100,000	Funds are not Expended
2101	63251	Unhoused Initiatives	10,000	Funds are not Expended
3201	62318	Contract Employee Services	50,000	Funds are not Expended
3301	63381	Building Inspections	(40,000)	Funds are not Expended
3501	63370	HOA Dues and Services	979	Funds are Expended, Matching Revenue
3501	8****	Sale of Land/Property	344,388	Funds are Expended, Matching Revenue
4817	61142	Police Program Supplies	(72,130)	Funds are Expended, Matching Revenue
5201	63215	Legal Services	50,000	Funds are Partially Expended
5301	68622	Benches	(3,678)	Funds are not Received, Matching Tracking Expenditures
5302	63121	SCC- Household Waste Fee	25,343	Funds are Partially Expended
5401	63361	Street Sweeping Services	40,000	Funds are not Expended
5401	63365	Sidewalk Steam Cleaning	15,000	Funds are not Expended
5405	62379	Miscellionous Services and Repairs	13,008	Funds are Partially Expended
5201	5****	Salaries and Benefits	(27,101)	Transfer Intern Hours From Engineering To Facilities Maintenance Program
5407	5****	Salaries and Benefits	27,101	Transfer Intern Hours From Engineering To Facilities Maintenance Program
7201	5****	Salaries and Benefits	12,913	Transfer Library Clerk Temporary Hours to Library Assistant Hours
7202	5****	Salaries and Benefits	28,661	Transfer Library Page Temporary Hours to Library Assistant Hours
7204	5****	Salaries and Benefits	(41,574)	Transfer Library Clerk and Page Temporary Hours to Library Assistant Hours
7801	6****	Grant Expenditures	32,188	Match Grant Revenue Carryforward
<b>TOTAL GENERAL FUND EXPENDITURES</b>			<b>\$ 1,065,724</b>	

**FY 2024-25 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS**

Fund	Program	Account	Other Fund Revenues	
<b>251</b>	4508		<b>Los Gatos Theatre</b>	
251		45352	43 N Santa Cruz Ave Rent	60,000 Funds Anticipated
				<b>\$ 60,000</b>
<b>421</b>	421-832-4505		<b>Grants</b>	
421		43214	MTC - OBAG	421 Match Budget to Actual Grants Received
				<b>\$ 421</b>
<b>TOTAL OTHER FUNDS REVENUES</b>			<b>\$ 60,421</b>	
Fund	Program	Account	Other Fund Expenditures	
<b>411</b>	411-811-9903		<b>GFAR</b>	
411		82405	Use of Excess VRF Reserves	397,887 From Available Vehicle Registration Fees Reserves
				<b>\$ 397,887</b>
<b>633</b>	5404		<b>Facilities Maintenance</b>	
633		62371	Building Maintenance & Repairs	40,000 Funds are not Expended
				<b>\$ 40,000</b>
<b>714</b>	7304		<b>Susan Mclendon Trust</b>	
714		61172	Youth Collections	2,000 Funds are not Expended
				<b>\$ 2,000</b>
<b>716</b>	7305		<b>Barbara Jones Cassin Trust</b>	
716		61171	General Collections	8,000 Funds are not Expended
				<b>\$ 8,000</b>
<b>TOTAL OTHER FUNDS EXPENDITURES</b>			<b>\$ 447,887</b>	

## SUMMARY OF KEY RECOMMENDED BUDGET ADJUSTMENTS

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a decrease in projected revenues of approximately \$232,691 in General Property Tax and an increase of \$130,070 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.
- Sales and Use Tax: Staff recommends a \$178,939 revenue budget decrease to reflect current sales tax trends based on MuniServices' current projections.
- Measure G – District Sales Tax: Staff recommends a \$44,314 revenue budget decrease to reflect the current trends of the one-eight cent sales tax based on MuniServices' projections and the matching \$44,314 pass through revenue and expenditure budget adjustments to track the Measure G allocation for police and capital services based on prior Council actions.
- Cable Franchise Fee: Staff recommends a decrease in projected revenues of approximately \$28,000 in cable franchise fee based on current collection trend.
- Waste Hauler Encroachment Fees: Staff recommends a \$68,927 revenue budget decrease based on the current agreement terms.
- Other Wastehauler Fee: Staff recommends a decrease in projected revenues of approximately \$86,404 to match the current agreement.
- Animal Services: Staff recommends a \$22,225 revenue budget decrease and \$7,000 expenditure budget increase due to changes with the current agreement.
- Unrestricted Fund Tracking - Made Available by ARPA Grant Receipt: Staff recommends a \$33,000 revenue budget decrease in the Non-Departmental Program since expenditures incurred in a prior year and a \$9,351 revenue budget increase for unhoused services based on the fact that not all dedicated funds for this purpose were expended in the prior year.
- Business License Tax: Staff recommends a \$418,958 revenue budget increase based on revised estimates that includes one time payments that crossed fiscal years.
- Interest to Other Funds: Staff recommends a \$337,092 revenue budget decrease due to the fact that the General Fund proportionate share of interest is decreasing, while other funds interest share is increasing with the same amount. Interest allocations are finalized upon the final close of the fiscal year based on the actual cash balances as of June 30, 2025.
- Planning Permits and Council Appeal Fees: Staff recommends a \$300,000 revenue budget increase to reflect increased planning application activities and a \$11,000 budget increase for council appeal based on current receipts.
- Special Project: Staff recommends a \$20,000 revenue budget increase based on the current receipts collected.

- Address Processing Fee: Staff recommends a \$15,000 revenue budget increase based on the current receipts collected.
- Building Inspections: Staff recommends a \$40,000 revenue and expenditure budget decrease based on current receipts collected; and a \$1,500 revenue budget increase for reimbursement from Building Standards SB 1473.
- Code Compliance – Admin Citations: Staff recommends a \$10,000 revenue budget increase based on the current receipts collected.
- Affordable Housing Program: Staff recommends a \$344,388 expenditure and revenue budget increase to accommodate to resell and temporary maintain the 137 Bersano Lane unit. All sale proceeds are redeposited to the Town’s Below Market Housing Program fund.
- Prop 172 – Public Safety Sales Tax: Staff recommends a \$23,900 revenue budget decrease to reflect the current trends of the tax based on MuniServices’ current projections.
- Oak Meadow Park Reservation Fee: Staff recommends a \$10,000 revenue budget increase based on the current receipts collected.
- Tree Removal Permit: Staff recommends a \$10,000 revenue budget increase based on the current receipts collected.
- Park Vending Fee: Staff recommends a \$3,000 revenue budget increase based on estimated activity in new park vendor program.
- Special Event Reimbursement: Staff recommends a \$17,000 revenue budget increase based on the current receipts collected.
- Benches: Staff recommends a \$3,678 revenue and expenditure budget decrease due to placement of memorial bench program on hold.
- AB 939 Grant: Staff recommends a \$8,634 revenue budget decrease due to funds not expected to be received.
- Contract Employee Services: Staff recommends a \$50,000 expenditure budget increase for a contract Senior Planner.
- Police Program Supplies: Staff recommends a \$72,130 expenditure budget decrease for previously allocated/spent funds.
- Legal Services: Staff recommends a \$50,000 expenditure budget increase based on investigative needs.
- SCC Household Waste Fee: Staff recommends \$25,353 expenditure budget increase due to changes in billing.

- Street Sweeping Services: Staff recommends a \$40,000 expenditure budget increase for an emergency street sweeping contract.
- Sidewalk Steam Cleaning: Staff recommends a \$15,000 expenditure budget increase due to a prevailing wage increase in the sidewalk steam cleaning contract.
- PPW Salaries and Benefits Reclassification: Staff recommends a \$27,101 expenditure budget transfer to reclassify salaries and benefits for an Intern from the Engineering program to a temporary Facilities Maintenance Worker in the Facilities program.
- Engineering Development Other Service Fees: Staff recommends \$20,000 revenue budget increase based on the current trends in miscellaneous engineering service fees.
- Engineering Service: Staff recommends a \$20,000 revenue budget increase based on the current trends for engineering services.
- Grading Inspection: Staff recommends a \$17,000 revenue budget increase based on the current trends for engineering services.
- Library Salaries and Benefits Reclassification: Staff recommends a \$41,574 expenditure budget transfer to reclassify salaries and benefits for temporary employees across Library Programs for actual program expenses due to changes in workforce and training requirements.
- Insurance Claim Reimbursement: Staff recommends a \$16,818 revenue budget increase to recognize the reimbursement received for damaged retaining walls and a \$13,008 expenditure budget increase for misc. service and repairs.
- Library Operating Grants: Staff recommends a \$32,188 revenue and expenditure budget increase based on use of deferred grant receipts.
- Friends of the Library: Staff recommends a \$10,000 revenue budget decrease to recognize a decrease in anticipated donations.
- Retiree Medical: Staff recommends a \$313,938 expenditure budget increase based on current estimates.
- IRS Pension Trust: Staff recommends a revenue and expenditure budget increase of \$300,000 to make an additional payment to the IRS Pension Trust from the available Pension/OPEB Reserve.
- Legal Services Support: Staff recommends a \$100,000 expenditure budget increase based on hiring a firm to assist with part-time legal support.
- SCC Election Fees: Staff recommends a budget expenditure decrease of \$85,520 for elections not held.
- Frontier Parking Lot Lease: Staff recommends a \$9,522 expenditure budget increase for commissions paid.

- Unhoused Initiatives: Staff recommends a \$10,000 expenditure budget increase from prior Council direction.

#### Other Fund Revenues and Expenditures

- Theatre Tenant Rent: Staff recommends a \$60,000 revenue budget increase based on anticipated rent payments.
- Grant Funded Projects: Staff recommends a \$421 revenue budget increase to match budget to actual grant receipts.
- Susan McLendon Trust: Staff recommends a \$2,000 expenditure budget increase to recognize use of interest earned.
- Barbara Jones Cassin Trust: Staff recommends a \$8,000 expenditure budget increase to recognize use of interest earned.
- GFAR Project Costs: Staff recommends a \$397,887 expenditure budget increase to use available excess VRF funds in reserves.
- Facilities Maintenance: Staff recommends a \$40,000 expenditure budget to repair the blinds in parts of the Civic Center.

## FINANCIAL SUMMARIES OF OTHER FUNDS

The group of financial summaries on the following pages present data by governmental, proprietary, and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

### Special Revenue Funds (Governmental Fund Type)

Special Revenue Funds account for the proceeds derived from specific revenue sources that are legally restricted or assigned to special purposes. The Town's Special Revenue Funds are the Community Development Block Grant Fund, Housing Conservation Program Fund, Urban Runoff Source Fund (Non-Point Source), several Landscaping Lighting District (LLD) Funds, Theatre Fund, and Library Trusts Funds. Staff also recommends a \$60,000 revenue budget increase adjustment to recognize the Theatre tenant lease payments, a \$10,000 revenue budget decrease in donations, and a \$10,000 expenditure budget adjustment in the Library trust funds to utilize prior year interest proceeds for general and youth collection items.

#### Special Revenue Funds Budget to Actuals Comparisons

	<b>CDBG Grants</b>	<b>Non-Point Source</b>	<b>LLD's</b>	<b>THEATRE</b>	<b>LIBRARY TRUSTS</b>
<b>Beginning Fund Balance</b>	<b>\$ 166,653</b>	<b>\$ 754,134</b>	<b>\$ 182,625</b>	<b>\$ 171,035</b>	<b>\$ 556,848</b>
Budgeted Revenues	-	163,690	39,230	57,960	76,400
<b>Total Actual Revenues - 2nd Qtr</b>	<b>\$ -</b>	<b>\$ 68,204</b>	<b>\$ -</b>	<b>\$ 153,718</b>	<b>\$ 60,272</b>
Budgeted Expenditures	-	284,429	40,401	55,814	108,002
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>-</b>	<b>137,476</b>	<b>11,793</b>	<b>31,727</b>	<b>19,975</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 166,653</b>	<b>\$ 684,862</b>	<b>\$ 170,832</b>	<b>\$ 293,026</b>	<b>\$ 597,145</b>



Capital Projects Funds (Governmental Fund Type)

Capital Projects Funds account for resources used for the acquisition and construction of capital facilities by the Town. Funds in this category are the GFAR (General Fund Appropriated Reserve) Fund, Community Center Development Fund, Traffic Mitigation Fund, Grant Funded CIP Projects Fund, Utility Underground Fund, Gas Tax Fund, and three Storm Drain Funds. Staff recommends \$397,887 expenditure budget adjustments to utilize the excess Vehicle Registration Fee reserve for additional street work and a \$421 revenue adjustment in the grant fund to match the revenue budget with the actual grant receipts. The Grant Funded CIP fund displays a deficit balance because this grant fund expends Town dollars first, then provides documentation of these expenditures to the State of California or other granting agencies and is reimbursed for those costs. The reimbursements eventually result in the fund “breaking even” or a zero-fund balance.

**Capital Project Funds  
Budget to Actuals Comparisons**

	GFAR*	Community Center Development	Traffic *	Grant Funds*	Storm Drains	Utility Undergd	Gas Tax
	Fund		Mitigation	CIP			
<b>Beginning Fund Balance</b>	<b>\$ 20,253,302</b>	<b>\$ 866,281</b>	<b>\$ 509,491</b>	<b>\$ (2,563,504)</b>	<b>\$ 3,531,248</b>	<b>\$ 3,584,251</b>	<b>\$ 1,928,167</b>
Budgeted Revenues	5,305,867	-	213,380	15,928,718	106,830	45,590	1,784,585
<b>Total Actual Revenues - 2nd Qtr</b>	<b>711,831</b>	<b>-</b>	<b>-</b>	<b>2,883,522</b>	<b>27,775</b>	<b>7,967</b>	<b>734,964</b>
Budgeted Expenditures	22,153,916	866,281	255,265	12,782,685	1,859,938	299,574	3,404,619
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>2,669,477</b>	<b>-</b>	<b>720</b>	<b>2,210,933</b>	<b>54,193</b>	<b>-</b>	<b>1,620,034</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 18,295,656</b>	<b>\$ 866,281</b>	<b>\$ 508,771</b>	<b>\$ (1,890,915)</b>	<b>\$ 3,504,830</b>	<b>\$ 3,592,218</b>	<b>\$ 1,043,097</b>

\* GFAR, Community Center Development, Traffic Mitigation, and Grant Funds balances are combined in the FY 2024 ACFR. The combined balance of \$19,065,570 is presented as an Appropriated Reserve.

Internal Service Funds (Proprietary Fund Type)

Internal Service Funds finance and account for special activities and services performed by a designated Town Department for other Town Departments on a cost reimbursement basis. Included in this fund type are the Equipment Replacement Fund, Workers' Compensation Fund, Joint Powers Authority Pooled Liability Network (PLAN) Self-Insurance Fund, Information Technology Fund, and the Facilities Maintenance Fund.

The Self-Insurance Fund displays a deficit balance because insurance premiums are paid at the beginning of the fiscal year. However, Department reimbursements are posted on a bi-monthly basis. In addition, increased premium rates and increased claim activities required the Town to increase its Liability Internal Service charges in the FY 2024-25 budget. Staff continues to monitor the insurance rates and is considering alternative insurances that can provide potential savings for the Town.

<b>Internal Service Funds</b>					
<b>Budget to Actuals Comparisons</b>					
	<b>Equipment Replacem</b>	<b>Workers Compensation</b>	<b>Self Insurance</b>	<b>Information Technology</b>	<b>Facility Maint.</b>
<b>Beginning Fund Balance</b>	<b>\$ 3,286,552</b>	<b>\$ 586,247</b>	<b>\$ 177,877</b>	<b>\$ 2,523,349</b>	<b>\$ 960,525</b>
Budgeted Revenues	1,123,659	1,905,154	1,507,436	914,114	1,396,548
<b>Total Actual Revenues - 2nd Qtr</b>	<b>561,910</b>	<b>799,845</b>	<b>646,317</b>	<b>412,119</b>	<b>683,466</b>
Budgeted Expenditures	2,105,937	1,826,050	1,540,481	1,118,348	1,445,325
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>372,460</b>	<b>931,916</b>	<b>1,341,650</b>	<b>582,395</b>	<b>540,081</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ 3,476,002</b>	<b>\$ 454,176</b>	<b>\$ (517,456)</b>	<b>\$ 2,353,073</b>	<b>\$ 1,103,910</b>

Trust and Agency Funds (Fiduciary Fund Type)

AB1x26 is the “Dissolution Bill” that eliminated the Town’s Redevelopment Agency effective February 1, 2012. AB 1484 is the “clean-up” bill that revised and attempted to clarify AB1x26. In accordance with the law, the Successor Agency continues to wind down the affairs and operations of the former Redevelopment Agency by implementing programs and activities in accordance with the State-approved Recognized Obligation payment Schedule (ROPS). The Successor Agency monies are now accounted for in a Private Purpose Trust fund and no longer part of the Town’s Financial Statements. The fund balance reported is the actual fund balance that incorporated the full accrual of long-term debt related to the outstanding bonds payable to the 2002 and 2010 Certificates of Participations. The approved ROPS schedule includes full funding related to the obligation for this debt.

	<u>SA Trust</u>
<b>Beginning Fund Balance</b>	<b>\$ (4,632,040)</b>
Budgeted Revenues	3,828,264
<b>Total Actual Revenues - 2nd Qtr</b>	<b>-</b>
Budgeted Expenditures	3,816,144
<b>Total Actual Expenditures - 2nd Qtr</b>	<b>1,715,878</b>
<b>2nd Quarter Ending Fund Balance</b>	<b>\$ (6,347,918)</b>



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION AGENDA REPORT**

MEETING DATE: 02/10/2025

ITEM NO: 4

Item 4.

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DATE: February 7, 2025  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: Review and Make a Recommendation to the Town Council on the FY 2025-26 Five-Year Forecast and Supporting Work Product

**RECOMMENDATION:**

Review and provide recommendations to the Town Council regarding the Five-Year Forecast (Fiscal Years 2025-26 – 2029-30), assumptions, and scenarios, and provide input for the FY 2025-26 budget direction.

**EXECUTIVE SUMMARY:**

The base case Five-Year Forecast (FY2025-26 – 2029-30) (Attachment 2) identifies deficits for all future years, using already negotiated salary cost increases (FY 2025-26 and FY 2026-27) and 2% salary increase assumption (beyond FY 2027-28), 4.6% vacancy saving factor and other assumptions (see Attachments 3 and 4). The projected deficits start at \$5.6M in FY 2025-26 and can be mitigated in the short term by expenditure controls and using one-time funds. Revenue projections are not keeping pace with rising costs. Future discussions of revenue capacity to match expenditures and service levels will need to occur to address increasing pressure on Town finances.

This report demonstrates the forecast sensitivity. The Finance Commission can provide recommendations on the assumptions for Council consideration for the FY 2025-26 budget and provide other budget direction as appropriate.

**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:

**PREPARED BY:** Gitta Ungvari  
Finance Director

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Reviewed by: Town Manager, and Assistant Town Manager

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SUBJECT: Five-Year Forecast (FY 2025-26 – 2029-30)

DATE: February 6, 2024

(a) The Finance Commission shall:

Serve as an on-going substantive and expert advisory body to the Town and Town Council so that the Town and Town Council can make informed decisions about the Town's financial, budgetary and investment matters and operations related thereto.

On February 20, 2025, the Town Council is scheduled to consider the FY 2025-26 Five Year Forecast which is an important component of the annual budget cycle (**Attachment 1**).

The Commission is welcome to provide comments on the Forecast, its assumptions, and scenarios as well as any comments for consideration in the preparation of the FY 2025-26 Operating Budget.

#### Forecasting Approach Consistent with Government Finance Officers Association (GFOA)

A "conservative" forecast as described by GFOA is conservative with revenue assumptions and builds in a layer of contingencies for expenditures. This approach might make it harder to balance the budget but reduces the risk of an actual shortfall. The Town's past forecasting practice represented this conservative approach.

During the last couple of years, staff changed elements of the budgeting and forecasting methodology. Starting FY 2020-21, the salaries are budgeted and forecasted at actual salary plus one step higher. Beginning in FY 2023-24, the budget and the forecast included a 4.6% vacancy savings factor, moving toward a less conservative approach.

An "objective" forecast as described by GFOA seeks to estimate revenues and expenditures as accurately as possible, making it easier to balance the budget, yet increasing the risk of an actual shortfall.

It is very important that the approach to the forecast and the underlying assumptions are clear, analyzing the risk between being objective versus conservative. While one-time solutions can solve near term shortfalls, the best practice is to build a structurally balanced forecast where recurring revenues (the portion of the Town's revenues that can reasonably be expected to continue year to year with some degree of predictability) equal or exceed recurring expenditures (salaries, benefits, and other operational expenditures).

#### DISCUSSION:

An important aspect of the Town's budget development process is taking a multi-year approach to understand revenue and expenditure trends over time. Serving as the foundation of the budget planning process (Attachment 1), the Town develops a Five-Year Financial Forecast ("Forecast") beginning in the winter of each year. The Forecast enables the Town to evaluate its fiscal condition and to help guide policy, programmatic planning, and budget decisions.

PAGE 3 OF 15

SUBJECT: Five-Year Forecast (FY 2025-26 – 2029-30)

DATE: February 6, 2024

Developing a financial forecast as part of the budget development process has been identified as a best practice by the Government Financial Officers Association (GFOA).

This process helps to provide a snapshot of what the future may look like as a result of the decisions made to date.

The initial Forecast (FY 2025-26 – 2029-30) is predicated on estimates derived from the FY 2024-25 Mid-Year review and includes updates to Town revenues and expenditures based on the end of year estimates projected at mid-year. Like any forecast, the Forecast's revenue estimates for the first year are the most critical in the process as they ultimately define the expenditure limitations for the upcoming budget year.

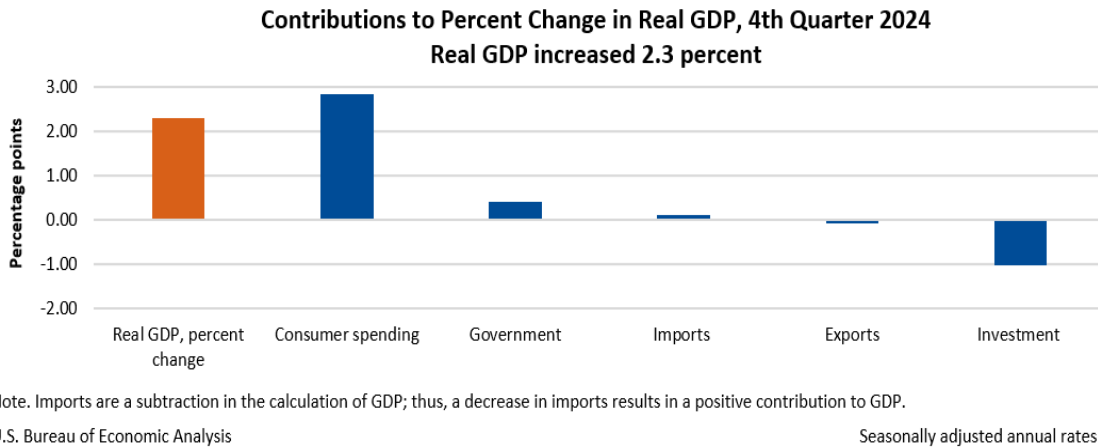
This report contains detailed information that contributes to the preparation of the annual budget, including the Town's "Base Case" Five-Year Forecast, its data sources, and budget assumptions. It also provides two additional forecast scenarios utilizing a sensitivity analysis for four of the major revenue assumptions. These additional forecast scenarios illustrate the effects on future budgets of a 1% higher revenue growth scenario ("Greater Growth") and a 1% lower revenue growth scenario ("Lower Growth").

The Five-Year Financial Forecast is not a budget, nor a proposed plan. The Five-Year Financial Forecast sets the stage for the upcoming budget process and is a tool in facilitating both the Town Council and Town Manager in establishing priorities and allocating resources appropriately.

#### National and Local Economic Backdrop

The UCLA Anderson School of Business publishes a quarterly economic forecast for the nation and California. The results of this forecast are used as part of the macroeconomic foundation for the Five-Year Forecast development. The Winter 2024 (December 2024) UCLA Anderson Report predicts that the incoming administration's policies, including tariffs on major trading partners (China, Mexico, and Canada), mass deportations, and tax cuts, will have a negative impact on the U.S. economy. These measures are anticipated to increase the cost of living by raising the prices of various goods and services and creating labor shortages in the agriculture, hospitality, manufacturing, and construction sectors. Consequently, while the U.S. economy is expected to outperform other countries, GDP growth is projected to fall below 2% in 2025, with only a partial rebound in 2026.

The US economy's resiliency is demonstrated by the Gross Domestic Product (GDP) increase of 3.1% in the third quarter and 2.3% in the fourth quarter of 2024 (Advance Estimate). As the graph below illustrates, the 2.3% increase in GDP is comprised of positive gains in consumer and government spending offset by decreases in investment and imports (positive value is subtracted from GDP).



The UCLA forecast anticipates that California’s economy will mirror U.S. growth rates, as the State faces .

Operating Revenue Trends and Five-Year Forecast Scenarios

The Town is highly dependent on four economically sensitive revenues comprising 65% of General Fund forecasted revenues. Following are summaries of the Town’s major revenues, including property tax, sales tax, business license tax, and transient occupancy tax (TOT).

Updated growth assumptions are provided for each revenue source and the resultant projected revenues for the new Forecast period. The revenue assumptions provided are informed by the County Tax Assessor, the Town’s sales tax consultant, and direct communication with the Town’s hospitality industry. In addition, alternative forecast scenarios for these four revenue streams are discussed in this report. Please see Attachment 3 for a description of all revenue categories with a comprehensive listing of revenue forecast assumptions.

Property Tax

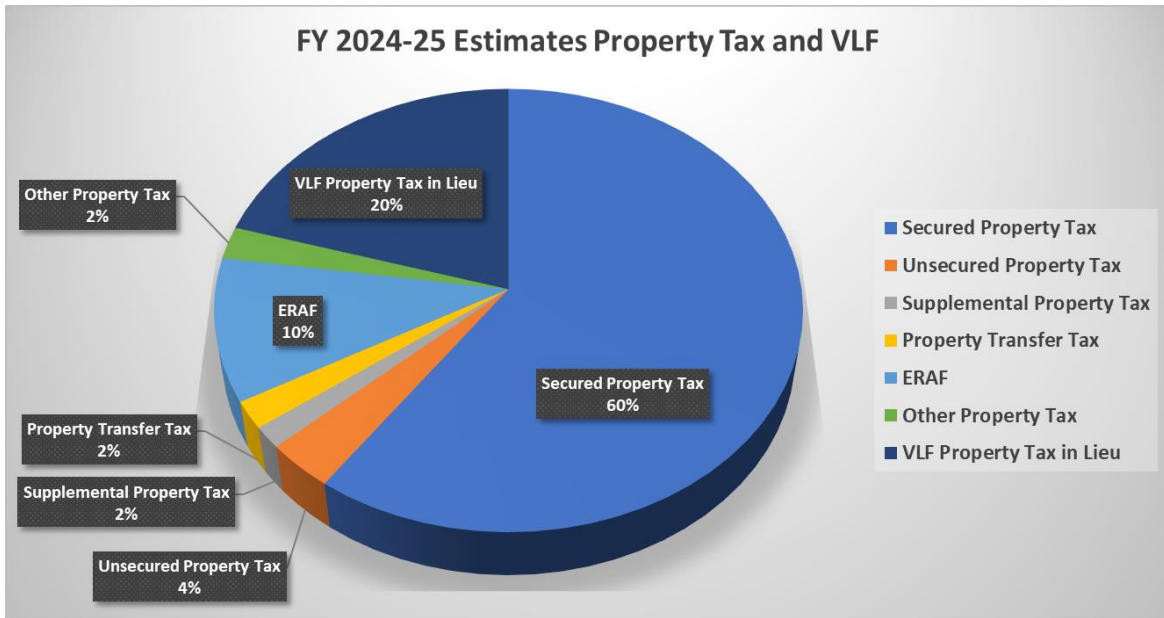
As the following table illustrates, Los Gatos has benefited from the economic expansion as evidenced by year-over-year (YOY) total property assessment roll growth since 2018. For the 7-year period, the average annual growth rate was 6.3%.

	2018	2019	2020	2021	2022	2023	2024	Seven Year Average Growth
Total Assesment Roll (Values in Billions)	13.15	13.84	14.9	15.6	16.8	18.1	18.8	6.3%
Percent Growth	6.95%	5.23%	7.70%	4.33%	7.77%	7.72%	4.10%	

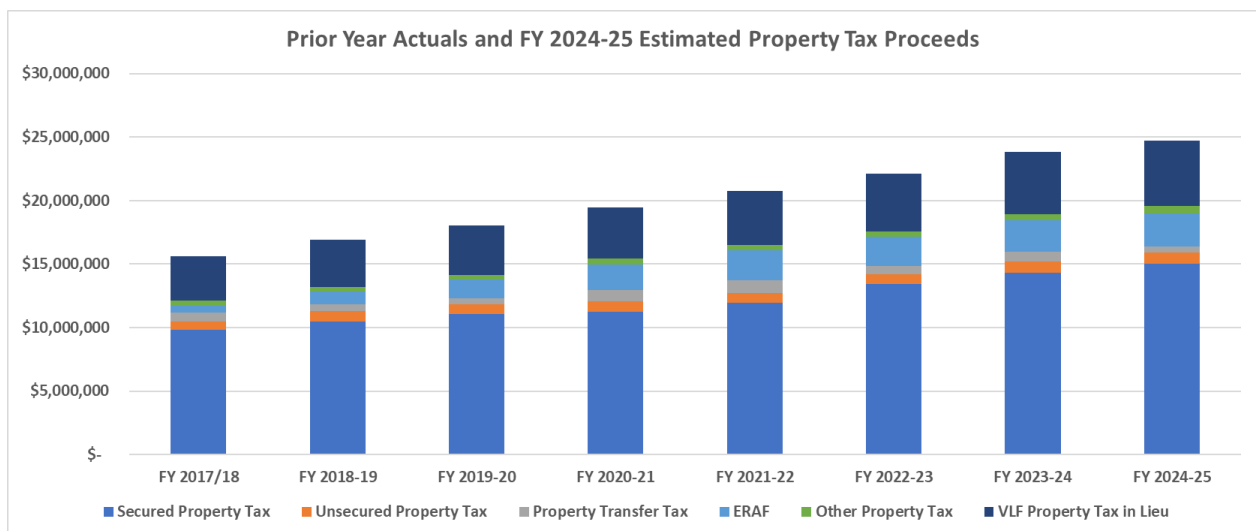
Property tax is the single largest revenue source for the Town and comprised approximately 42% of total Town estimated General Fund revenues for FY 2024-25. **Secured Property Tax,**

**Motor Vehicle in Lieu (VLF), and Excess Education Revenue Augmentation Fund (ERAF)** constitute 90% of the current year's property tax proceeds. The following table and graphs illustrate how the actual year-over-year (YOY) performance for the different property tax categories varies from fiscal year to fiscal year.

The following chart illustrates the FY 2024-25 Estimated Property Tax categories.



The following graph illustrates the historical amounts based on the major categories and their YOY growth.



The following table illustrates the historical YOY growth based on the major categories.



Percentage of Total Proceeds	Property Tax Categories	FY 2018-19 Actuals	FY 2019-20 Actuals	FY 2020-21 Actuals	FY 2021-22 Actuals	FY 2022-23 Actuals	FY 2023-24 Actuals	FY 2024-25 Estimates	Average YOY Growth
60%	Secured Property Tax	6.9%	5.6%	1.6%	6.1%	12.3%	7.0%	4.9%	6.3%
20%	Motor Vehicle in Lieu (VLF)	6.9%	5.2%	4.6%	4.4%	7.7%	7.7%	4.1%	5.8%
10%	ERAF	90.5%	46.1%	41.4%	16.1%	-3.1%	8.8%	3.2%	29.2%
4%	Unsecured Property Tax	16.4%	-5.1%	6.9%	-7.8%	8.8%	6.1%	-0.5%	3.9%
2%	Property Transfer Tax	-21.8%	-9.2%	76.0%	17.0%	-37.8%	-23.2%	-32.9%	1.3%
2%	Other Property Tax	-11.1%	-0.2%	10.7%	1.0%	-2.6%	4.1%	28.1%	5.0%
2%	Supplemental Property Tax	17.7%	-31.8%	40.3%	-9.0%	61.1%	-40.5%	-37.4%	3.3%

The staff analysis includes the three most significant property tax categories – Secured Property Tax and VLF Property Tax generally increase alongside the growth of the Total Assessment Rolls. The Total 2024 Assessment Roll will be published in July 2025 by the Santa Clara Assessor’s Office.

In addition to the annual assessment increases and the reassessments of Proposition 13 properties as they change ownership, historical growth encompasses the annexation of 24 pockets from Santa Clara County and property sales from the First Phase of the North Forty development. The VLF Property Tax in Lieu collection, based on the assessed roll, is also included.

ERAF, as the table illustrates above, can vary yearly, and it is not tied to the Total Assessment Roll. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF exceeds the minimum cost of funding local schools, excess funds have traditionally been returned to the county, cities, and special districts. Santa Clara County has only provided projections for the current fiscal year. FY 2025-26 Excess ERAF projections will not be available until March 2025. The Town has been monitoring ongoing developments regarding the distribution of excess ERAF funds. A portion of property tax revenue goes to the ERAF to support local school districts. When the amount contributed to ERAF is more than the minimum cost of funding local schools, excess funds have traditionally been returned to the counties, cities, and special districts.

During the last couple of years, the Santa Clara County redistribution formula was contested by the State, and additional risk raised from State Controller’s audit findings for Marin County. The Town received the full amount since FY 2021-22; however, the Santa Clara County Assessor’s Office recommended reserving a certain percentage based on the risk. According to the most recent (January 2025) communication from the Santa Clara State Controller Office the risk remains for the State Controller Office Audit findings that varies from 20% to 22% for the Town. Estimated at risk amounts and the Town Actual and Estimates ERAF Risk Reserves are presented below.

The Town Estimated ERAF Risk Reserve is \$1,215,154 as of June 30, 2025. With the FY 2024-25 budget adoption Council action \$1,000,000 of the ERAF Risk Reserve was transferred to the Pension/OPEB Reserve. The total reserve amount of \$2,215,154 is still below the Town’s estimated risk amount of \$2,558,139, therefore, staff recommends continuing to reserve 30% of the anticipated FY 2024-25 ERAF proceeds.

	FY 2020-21 Actual	FY 2021-22 Actual	FY 2022-23 Actual	FY 2023-24 Actual	FY 2024-25 Estimated	Total \$
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 January 2025 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	\$ 2,558,139
<b>Town ERAF Risk Reserve as of 6/30/2024</b>						<b>\$ 1,430,054</b>
Estimated Addition to the Reserve - 30% of the FY 2024-25 proceeds						\$ 785,100.00
Allocation of the ERAF Risk Reserve to Pension/OPEB Reserve per June 4, 2024 Council Action						\$(1,000,000.00)
<b>Town Estimates ERAF Risk Reserve as of 6/30/2025</b>						<b>\$ 1,215,154.00</b>

Staff recommendations for property tax growth assumptions are listed below based on the above information.

*Secured Property Tax:*

Staff recommends growing the secured property tax by 4.1%.

*Motor Vehicle in Lieu (VLF):*

Staff recommends growing the VLF by 4.1%.

*Excess ERAF:*

Staff recommends the assumption that the Town will receive 100% of the ERAF proceeds; however, per prior Council direction and the Santa Clara County Assessor’s Office advice, 30% is set aside until the audit findings are resolved.

*Unsecured, Supplemental, Other Property Tax, and Property Transfer Tax:*

Staff recommends increasing the rest of the property taxes (Unsecured, Supplemental, Other Property Tax, and Property Transfer Tax), which represents 10% of the current proceeds, by 3%.

For purposes of the Forecast, the “Base Case” utilizes staff recommendations. “Higher Growth” and “Lower Growth” scenarios represent 1% above and below the recommended growth to illustrate the forecast sensitivity. The following tables display three cases related to all property tax and vehicle license fee.

Property Tax (Property Tax & VLF)	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Lower Growth (1% Lower)	\$25.70	\$26.30	\$27.10	\$27.80	\$28.60
Base Case	\$25.90	\$26.80	\$27.80	\$28.80	\$29.80
Greater Growth (1% Higher)	\$26.10	\$27.20	\$28.50	\$29.80	\$31.20

Sales Tax

Sales tax is the second largest revenue source for the Town’s General Fund, accounting for 15% of budgeted General Fund projected revenues for FY 2024-25. The Town currently receives 1.125 cents for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents’ approved ballot Measure G in 2018 enacting a one-eighth cent (0.125%) district sales tax for 20 years.

Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town’s consultant, MuniServices. In addition to brick-and-mortar sales tax generation, the MuniServices estimates include several online sales tax projections. The 2018 Wayfair Decision resulted in e-commerce vendors utilizing the Amazon platform to collect sales tax based on destination; however, items shipped directly from Amazon fulfillment centers are collecting sales tax based on the point of distribution. Regular sales tax collected through online transactions are distributed through the Santa Clara County pool for which the Town receives a pro rata share of the sales tax generated in Santa Clara County for that particular quarter. The Town directly receives the one-eighth district tax portion of the sales tax generated by the residents of Los Gatos. Most recent estimates for FY 2024-25 are estimating declining sales tax collection comparing the FY 2024-25 adopted budget, a \$223,253 decrease for the current fiscal year

The following tables display MuniService's Most Likely scenario relative to their “Conservative” and “Optimistic” scenarios for the forecast period. As illustrated below even the optimistic scenario is presenting modest growth in this category.

Base Sales Tax	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Conservative	\$6.28	\$6.39	\$6.52	\$6.64	\$6.74
Most Likely	\$6.50	\$6.62	\$6.76	\$6.88	\$6.98
Optimistic	\$6.74	\$6.85	\$7.00	\$7.22	\$7.23

Measure G 1/8 District Tax	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Conservative	\$1.24	\$1.27	\$1.37	\$1.34	\$1.37
Most Likely	\$1.27	\$1.30	\$1.34	\$1.37	\$1.40
Optimistic	\$1.29	\$1.33	\$1.36	\$1.40	\$1.43

Staff recommends forecasting the sales tax according to the Most Likely assumption.

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Transient Occupancy Tax

TOT is an important revenue source for the Town and comprises approximately 4% of the total Town's estimated revenues in the amount of \$2.3 million for FY 2024-25. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase the TOT from 10% to 12% during the November 8, 2016 election. During the pandemic, TOT experienced the most significant percentage decline relative to historically adopted budgets. Due to a significant rebound in leisure “staycation” travel and modest improvements in business travel, TOT collections are trending slightly higher than the prior year due to the variance in the timing of the payment received. Overall revenue collection is trending within the budget with no significant change from the prior year's actual collection. Staff anticipates a modest growth in TOT collection and recommends a 2% growth assumption in this category.

TOT	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Proposed Growth	2%	2%	2%	2%	2%
Estimated Revenues	\$2.39 M	\$2.42 M	\$2.47 M	\$2.52 M	\$2.57 M

For purposes of illustrating the Forecast sensitivity, the “Base Case” utilizes a growth factor of 2% recommended by staff as illustrated above, and the “Greater Growth” and “Lower Growth” scenarios utilize a 1% differential from the Base Case.

TOT	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Lower Growth (1% Lower)	\$2.36	\$2.38	\$2.40	\$2.43	\$2.45
Base Case 2%	\$2.39	\$2.42	\$2.47	\$2.52	\$2.63
Greater Growth (1% Higher)	\$2.40	\$2.47	\$2.55	\$2.63	\$2.70

Business License Tax

Business License Tax is an important revenue source for the Town and comprises approximately 4% of the total Town's estimated revenues in the amount of \$2.3 million for FY 2024-25. The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity.

In November 2022, Los Gatos voters approved Measure J, which modernized the Town’s business license tax program. This was the first update to the program since 1991, strengthening funding for core Town services that are enjoyed by Town businesses. Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120%

increase in e-commerce, manufacturing, wholesaling, and jobbing gross receipts. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$1,365. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses.

Payments for new flat-fee-based businesses are prorated by quarter. Current year business license tax revenue projections provided by HdL, the Town third party business license processor, are trending higher than the adopted budget due to the timing of business license tax received across fiscal years. FY 2025-26 collection is forecasted at 2.4 million in line with the FY 2022-23 actual collections. Staff recommends 3% growth in this category.

Business License Tax	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Proposed Growth	3%	3%	3%	3%	3%
Estimated Revenues	\$2.29	\$2.57	\$2.65	\$2.72	\$2.81

For purposes of the Forecast, the “Base Case” utilizes a 3% growth factor as illustrated above and the “Greater Growth” and “Lower Growth” scenarios utilize a 1% differential from the Base Case.

Business License Tax	2023/24 Forecast (\$M)	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)
Lower Growth (1% Lower)	\$2.47	\$2.52	\$2.57	\$2.62	\$2.67
Base Case 3%	\$2.29	\$2.57	\$2.65	\$2.72	\$2.81
Greater Growth (1% Higher)	\$2.52	\$2.62	\$2.72	\$2.83	\$2.95

Operating Expense Trends and Five-Year Forecast Scenarios

Forecasts of future operating expenditures consider two key factors: cost escalation and new operating expenditures. New operating expenditures refer to costs created by new or enhanced service programs approved during the annual budget process. Attachment 4 contains the expenditure assumptions.

Cost escalation refers to largely unavoidable increases in the cost of doing business. It includes inflation, multi-year contract costs, health care costs, and unfunded State mandates. Cost escalation also includes other unavoidable cost increases to a government organization, such as a rise in wages consistent with collective bargaining agreements and annual pension payments mandated by CalPERS. The Town has three bargaining units, including the Town Employees’ Association (TEA), the American Federation of State, County and Municipal Employees (AFSCME), and the Police Officers’ Association (POA). The unrepresented groups are Management, Confidential, and Temporary.

For FY 2024-25, General Fund Operating expenditures (not including debt payments and transfers out) are programmed at \$56.6 million. The delivery of Town services is highly dependent on talent which comprises 68.5% of budgeted General Fund operating expenditures for FY 2024-25. Given the high dependence on labor for service delivery, the Town has helped manage salary escalation (and benefits) through the maintenance of lower staffing levels.

Mandated pension payments to CalPERS have consistently been one of the major cost drivers for the Town over the past decade with persistent unanticipated increases in pension costs. The Town's plans over the past several decades, like all other CalPERS participants, have experienced unfavorable investment returns, changes in actuarial assumptions, and demographic changes which have outweighed any positive plan experiences. The outcome of these unfavorable economic and demographic results is the development of unfunded pension and Other Post-Employment Benefit (OPEB) obligations for the Town. Previously, the Town has allocated additional discretionary pension funding to address the escalation in pension costs.

The Town and its bargaining groups have also worked to contain benefit costs. The Town closed the CalPERS retiree Tier 1 benefit for non-safety employees and created a new Tier 2 for non-safety new employees in 2012, implemented the Public Employees' Pension Reform Act (PEPRA) for all new non-classic employees starting in 2013, and participates in the CalPERS discounted prepayment option.

In addition to the management of the Town's pension obligations, the Town and the Town's bargaining groups have worked to curb cost escalation in OPEB. In 2009, the Town initiated prefunding of the retiree healthcare benefit and has since established approximately \$29.2 million in OPEB assets (as of 9/31/2024) from zero in 2009. In 2016, the Town's bargaining groups approved the introduction of dependent cost sharing and a reimbursement cap to Medicare-eligible employees, and in 2018, the elimination of the Town's existing retiree healthcare benefit prospectively.

While these collective measures have helped to slow the growth in salary and benefit expenses, the forecast anticipates continued increases in the Town's pension obligations.

Provided below are the expense assumptions for salary and benefits and alternate case scenarios for pension contributions. Most other expenses are assumed to increase at 3% per annum. Detailed expenditure assumptions and factors can be found in Attachment 4.

Salary and Benefits

*Salary*

The Town has historically budgeted vacant and non-sworn positions at the top step of the range for the position. Sworn and management positions were budgeted at one step higher than the current step in anticipation of any merit increases expected to be awarded in the upcoming fiscal year. Based on Council’s direction from FY 2021-22, salaries were budgeted at actual salary plus a one step increase, which was a significant budgeting methodology change from previous practice. In addition, the FY 2023-24 budget built in a 4.6% vacancy factor. These methodologies will be continued in the FY 2025-26 budget development, unless modified by the Town Council.

For the forecast, positions are budgeted at the actual rate of pay of employees, including benefits, as of January 2024. Then, by position, salary costs are updated in accordance with the applicable Memorandum of Understanding (MOU) between the Town and its bargaining units. The Memoranda of Understanding that outline the individual agreements between the Town and each unit related to compensation, health benefits, leave time, and grievance procedures will expire with POA, TEA, and AFSCME on June 30, 2026. The Management, Confidential, and Temporary groups are unrepresented, but all salary schedules were approved through June 30, 2026 for these groups as well.

In addition to the economic terms of the MOUs, the forecast assumes step and merit increases for employees in applicable positions. In addition, based on prior Council guidance, 2% cost of living wage adjustments (COLA) are included in the forecast for each year starting in FY 2026-27.

Salaries Current Agreements 4.6% Vacancy Factor	2025-26 Forecast	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast
	(\$M)	(\$M)	(\$M)	(\$M)	(\$M)
Base Case	\$24.72	\$25.85	\$26.27	\$26.81	\$27.37

*Pension and Other Benefits*

The Town’s required employer contribution rate estimates were developed using data provided by each plan’s most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2024-25 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2025-26 and subsequent years are based on the most recent CalPERS actuarial valuation Reports as adjusted by the impact related to the FY 2022-23 CalPERS 6.1% investment return and forecasted payroll.

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Beginning in FY 2021-22, the estimates of employer contributions were credited with an anticipated reduction associated with the approximate \$4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately \$5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020-21. Other Benefits include health insurance, life insurance, and workers' compensation insurance premiums.

Pension Benefits	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Base Case	\$9.55	\$10.69	\$10.92	\$11.89	\$12.09

Other Benefits	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2029-30 Forecast (\$M)
Base Case	\$6.03	\$6.30	\$6.45	\$6.59	\$6.82

Given that investment returns have one of the largest impacts on contribution variability, CalPERS provides projected employer Unfunded Actuarial Liability (UAL) contributions under alternate investment returns. Analysis using the investment return scenarios from the Asset Liability Management process completed in 2023 was performed to determine the effects of various future investment returns on required employer contributions.

The projections below reflect the impact of the CalPERS Funding Risk Mitigation policy. The projected normal cost rates reflect that the rates are anticipated to decline over time as new employees are hired into lower-cost benefit tiers. The projections also assume that all other actuarial assumptions will be realized and that no further changes in assumptions, contributions, benefits, or funding will occur. The table shows projected contribution requirements if the fund were to earn either 3.0% or 10.8% annually. These alternate investment returns were chosen because 90% of long-term average returns are expected to fall between these levels over the 20-year period ending June 30, 2043.

UAL Town Contributions (Misc & Safety)	2026-27 Forecast	2027-28 Forecast	2028-29 Forecast	2029-30 Forecast	2030-31 Forecast
Greater Investment Return Scenario (10.8%)	\$6,329,000	\$6,398,000	\$6,519,000	\$6,047,000	\$4,020,000
Base Investment Return Case (3.0%)	\$6,647,000	\$7,344,000	\$8,427,000	\$9,262,000	\$10,241,000

CalPERS Actuarial Valuations as of June 30, 2023.

For the year ending June 30, 2024, the Public Employees Retirement Fund (PERF) preliminary investment return was 9.3%. The table below illustrates the historic investment returns for five years, ten years, twenty years, and thirty years.



CalPERS Compound Annual Rates of Return (as of June 30, 2023)	5 Years	10 Years	20 Years	30 Years
Compound Annual Return	9.50%	7.80%	8.40%	8.80%

Five-Year Financial Forecast Alternative Scenarios

The tables below present the “Base Case” forecast contrasted against the two alternative revenue scenarios of “Greater Growth” and “Lower Growth.” All scenarios include a 4.6% salary saving factor, the approved salary increases and assume a 2% cost of living adjustment beyond FY 2026-27.

5 Year Forecast "Base Case" with 4.6% Vacancy Factor 70% of ERAF	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2030-31 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$56.2	\$57.8	\$59.2	\$60.5	\$60.9
Total Expenditures & Reserve Allocations	\$61.8	\$65.0	\$66.2	\$68.7	\$68.9
Surplus/Deficit	(\$5.6)	(\$7.2)	(\$7.0)	(\$8.2)	(\$8.0)

Alternative Scenario "Greater Growth" with 4.6% Vacancy Factor 70% of ERAF	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2030-31 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$56.5	\$58.2	\$60.0	\$61.7	\$62.4
Total Expenditures & Reserve Allocations	\$61.8	\$65.0	\$66.2	\$68.7	\$68.9
Surplus/Deficit	(\$5.3)	(\$6.8)	(\$6.2)	(\$7.0)	(\$6.5)

Alternative Scenario "Lower Growth" with 4.6% Vacancy Factor 70% of ERAF	2025-26 Forecast (\$M)	2026-27 Forecast (\$M)	2027-28 Forecast (\$M)	2028-29 Forecast (\$M)	2030-31 Forecast (\$M)
Total Revenues & Transfers and Use of Reserves	\$56.0	\$57.1	\$58.4	\$59.2	\$59.3
Total Expenditures & Reserve Allocations	\$61.8	\$65.0	\$66.2	\$68.7	\$68.9
Surplus/Deficit	(\$5.8)	(\$7.9)	(\$7.8)	(\$9.5)	(\$9.6)

CONCLUSION:

The Finance Commission should review and discuss the elements and confirm the assumptions of the initial Five-Year Forecast and other budget considerations. All forecast scenarios estimate deficits at this time. Staff looks forward to answering the Finance Commission questions and

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receiving any recommendations for Council consideration for the preparation of the proposed FY 2025-26 Operating Budget that results from the discussion.

The preparation of the FY 2025-26 Operating and Capital Budgets is taking into account the Town's current economic reality and long term fiscal picture, as well as maintaining the Town's high level of municipal services. Key budget principles include:

- Develop and recommend a balanced budget that maintains service levels;
- Address projected deficits;
- Continue to make progress on Strategic Priorities identified by the Town Council; and
- Identify opportunities to maintain or enhance service delivery through new revenue sources and technology.

The Finance Commission may also discuss budget assumptions. The Draft FY 2025-26 Operating and Capital Budgets will be available in April for the Finance Commission elaboration with the budget hearing tentatively scheduled for May 20, 2025.

COORDINATION:

This Report was prepared by the Finance Department and the Town Manager's Office.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. Annual Budget Process
2. Base Case Five-Year Forecast
3. Forecast Revenue Assumptions
4. Forecast Expense Assumptions

	Prior FY (2023-24)	Current FY (2024-25)	Next FY (2025-26)
December	<p><b>June 30, 2024 ACFR</b> finalized and presented for Council approval.</p> <p>ACFR surpluses assigned per the Council Reserve Policy as of June 30, 2024</p>		
February		<p>Council deliberates <b>Strategic Priorities</b> and <b>Budget</b> direction for FY 2025-26.</p> <p>Review of Five-year Forecast and assumptions.</p> <p>Council determines if previously assigned surpluses should be reallocated for FY 2025-26.</p> <p>Council considers <b>Mid-Year Budget</b> adjustments through 12/31/2024 for FY 2024-25 Budget.</p>	
April		<p>Finance Commission review and comment on Proposed FY 2025-26 <b>Operating &amp; Capital Budgets.</b></p>	
May		<p>Public hearing on FY 2025-26 <b>Operating &amp; Capital Budgets</b></p>	
June		<p>Council adoption of the FY 2025-26 <b>Operating &amp; Capital Budgets</b></p>	<p>End of <b>June 30, 2025 ACFR</b> period</p>
July			<p>Start of new FY 2025-26 <b>Operating Budget</b> year</p>
December			<p><b>June 30, 2025 ACFR</b> finalized and presented for Council approval.</p> <p>ACFR surpluses assigned per the Council Reserve Policy as of June 30, 2024</p> <p><b>ATTACHMENT 1</b></p>

General Fund 5-Year Forecast (in \$ million)								
Revenue Category	FY 2023-24 Actuals	FY 2024-25 Adjusted Budget	FY 2024-25 Estimates	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast
Property Tax	\$ 19.3	\$ 20.2	\$ 20.0	\$ 20.6	\$ 21.3	\$ 22.0	\$ 22.8	\$ 23.6
VLF Backfill Property Tax	4.9	5.0	5.1	5.3	5.5	5.8	6.0	6.2
Sales & Use Tax	6.8	6.6	6.4	6.6	6.6	6.8	7.0	7.0
Measure G District Sales Tax	1.3	1.3	1.3	1.2	1.3	1.3	1.3	1.4
Franchise Fees	2.5	1.0	1.0	1.0	1.1	1.1	1.1	1.2
Transient Occupancy Tax	2.4	2.3	2.3	2.4	2.5	2.5	2.6	2.7
Business License Tax	1.5	2.4	2.8	2.5	2.6	2.6	2.7	2.8
Licenses & Permits	3.3	3.5	3.5	3.1	3.2	3.2	3.3	3.4
Intergovernmental	1.2	1.1	1.1	0.8	0.9	0.9	0.9	0.9
Town Services	6.6	7.0	7.3	6.6	6.7	6.8	6.9	7.0
Fines & Forfeitures	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Interest	2.6	1.8	1.4	1.0	1.0	1.0	0.7	0.7
Other Sources	5.0	4.1	4.6	3.1	3.1	3.2	3.2	2.0
Fund Transfers In	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
<b>TOTAL OPERATING REVENUES &amp; TRANSFERS</b>	<b>\$ 58.5</b>	<b>\$ 57.2</b>	<b>\$ 57.7</b>	<b>\$ 55.1</b>	<b>\$ 56.7</b>	<b>\$ 58.1</b>	<b>\$ 59.4</b>	<b>\$ 59.8</b>
Use of Capital/Special Projects Reserve	\$ 1.6	\$ 2.7	\$ 2.7	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1
Use of Measure G Sales Tax - Operating	-	0.6	0.6	-	-	-	-	-
Use of Pension/OPEB Reserve	0.3	-	0.3	-	-	-	-	-
Use of Council Priorities - Economic Recovery	1.5	-	-	-	-	-	-	-
<b>TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES*</b>	<b>\$ 61.9</b>	<b>\$ 60.5</b>	<b>\$ 61.3</b>	<b>\$ 56.2</b>	<b>\$ 57.8</b>	<b>\$ 59.2</b>	<b>\$ 60.5</b>	<b>\$ 60.9</b>
Expenditure Category	FY 2023-24 Actuals	FY 2024-25 Adjusted Budget	FY 2024-25 Estimates	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast
Salary	\$ 21.5	\$ 25.2	\$ 22.6	\$ 26.0	\$ 27.2	\$ 27.7	\$ 28.3	\$ 28.9
Overtime	1.3	0.6	1.5	0.6	0.7	0.7	0.7	0.7
CalPERS Benefits	7.4	8.8	8.3	9.5	10.7	10.9	11.9	12.1
All Other Benefits	4.3	5.6	4.9	6.0	6.3	6.5	6.6	6.8
4.6% Salary and Benefits Savings	-	(1.8)	-	(1.9)	(2.1)	(2.1)	(2.2)	(2.2)
OPEB Pay as You Go	1.6	1.7	2.0	2.3	2.4	2.5	2.6	2.7
Operating Expenditures	9.8	9.2	8.8	8.2	8.5	8.6	9.0	9.1
Grants & Awards	0.7	0.7	0.7	0.3	0.3	0.3	0.3	0.3
Utilities	0.7	0.7	0.7	0.7	0.7	0.8	0.8	0.8
Internal Service Charges	3.2	4.4	4.1	4.7	4.9	5.1	5.3	5.5
Debt Service	2.1	2.1	2.1	2.1	2.1	2.1	2.1	0.8
<b>TOTAL OPERATING EXPENDITURES</b>	<b>\$ 52.9</b>	<b>\$ 57.2</b>	<b>\$ 55.7</b>	<b>\$ 58.5</b>	<b>\$ 61.7</b>	<b>\$ 62.9</b>	<b>\$ 65.3</b>	<b>\$ 65.5</b>
Additional Discretionary Payment - Pension	0.7	0.4	0.7	0.4	0.4	0.4	0.4	0.4
<b>TOTAL OPERATING &amp; DISCRETIONARY EXPENDITURES</b>	<b>\$ 53.6</b>	<b>\$ 57.6</b>	<b>\$ 56.4</b>	<b>\$ 58.9</b>	<b>\$ 62.1</b>	<b>\$ 63.3</b>	<b>\$ 65.7</b>	<b>\$ 65.9</b>
Capital Transfers Out to GFAR	\$ 1.6	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1	\$ 1.1
Transfer to General Liability	0.4	-	-	-	-	-	-	-
GASB 65	0.6	-	-	-	-	-	-	-
Fixed Assets/ Equipment	0.1	0.5	0.9	-	-	-	-	-
1/2 of Measure G Proceeds to Capital	0.7	0.6	0.6	0.6	0.6	0.6	0.7	0.7
Allocate to ERAF Risk Reserve	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Allocate to Pension Trust	0.7	0.4	0.7	0.4	0.4	0.4	0.4	0.4
<b>TOTAL EXPENDITURES &amp; RESERVE ALLOCATIONS*</b>	<b>\$ 57.7</b>	<b>\$ 60.5</b>	<b>\$ 60.5</b>	<b>\$ 61.8</b>	<b>\$ 65.0</b>	<b>\$ 66.2</b>	<b>\$ 68.7</b>	<b>\$ 68.9</b>
<b>NET REVENUES, TRANSFERS IN, USE OF RESERVES LESS EXPENDITURES, TRANSFERS IN, AND RESERVE ALLOCATIONS</b>	<b>\$ 4.2</b>	<b>\$ -</b>	<b>\$ 0.8</b>	<b>\$ (5.6)</b>	<b>\$ (7.2)</b>	<b>\$ (7.0)</b>	<b>\$ (8.2)</b>	<b>\$ (8.0)</b>

\* Due to rounding of individual categories total revenues, expenditures, and reserve allocations may include \$0.1 million.

**Revenue Baselines and Projection Factors**

Type of Revenues	FY 2024-25 Estimates Baseline	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast
<b>Property Tax/VLF Backfill</b>	Current baseline set by SCC Assessor Office February 2025 report	4.1%	4.1%	4.1%	4.1%	4.1%
<b>Motor Vehicle License in Lieu (VLF)</b>	Current baseline set by SCC Assessor Office February 2025 report	4.1%	4.1%	4.1%	4.1%	4.1%
<b>ERAF</b>	Current baseline set 100% of SCC Assessor Office February 2024 Update Reserving 30% to ERAF Risk Reserve	\$1.83 million	\$1.83 million	\$1.83 million	\$1.83 million	\$1.83 million
<b>Sales Tax</b>	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates
<b>Sales Tax - Measure G</b>	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates	MuniServices January 2025 Most Likely Estimates
<b>Franchise Fee</b>	Current baseline set by FY2024-25 Estimates	3%	3%	3%	3%	3%
<b>Transient Occupancy Tax</b>	Current baseline set by FY 2024-25 Estimates	2%	2%	2%	2%	2%
<b>Business License Tax</b>	Current baseline set by FY 2024-25 Estimates	3%	3%	3%	3%	3%
<b>License &amp; Permits</b>	Current baseline set by FY 2024-25 Estimates	3%	3%	3%	3%	3%

## Revenue Baselines and Projection Factors

Item 4.

<b>Town Services</b>	Current baseline set by FY 2024-25 Estimates	3%	3%	3%	3%	3%
<b>Fine &amp; Forfeitures</b>	Current baseline set by FY 2024-25 Estimates	Varies	Varies	Varies	Varies	Varies
<b>Yield to Maturity Assumptions</b>	Current baseline set by FY 2024-25 Actuals	3.51%	3.45%	3.37%	3.31%	3.28%
<b>Other Sources</b>	Current baseline set by FY 2024-25 Estimates	Varies	Varies	Varies	Varies	Varies

**EXPENDITURE BASELINE AND PROJECTION FACTORS**

Beginning in FY 2020-21, the Town started budgeting salaries at the actual salary plus a one-step increase. In the Five-Year Forecast, positions are forecasted at the actual rate of pay including salaries and benefits as of December 31, 2024. Beginning FY 2023-24 the total salaries and benefits budget includes 4.6% vacancy factor.

Type of Expenditures	FY 2024-25 Budget	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast
Salaries*(TEA)	5%	3%	3%	2%	2%	2%
Salaries *(POA)	6.5%	5%	4%	2%	2%	2%
Salaries*(AFSCME)	4%	4%	4%	2%	2%	2%
Salaries * (Management, Confidential, Temp)	5%	3%	3%	2%	2%	2%
Benefit - Medical**	4%	4%	4%	4%	4%	4%
Operating Expenditures***	3%	3%	3%	3%	3%	3%
Grants & Awards	0%	0%	0%	0%	0%	0%
Utilities***	Varies	3%	3%	3%	3%	3%
Workers Comp Charges	Based on projected payroll	3%	3%	3%	3%	3%
General Liability Charges	Based on projected payroll	3%	3%	3%	3%	3%
Other Internal Service Charges***	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement	Based on operating cost and scheduled replacement
Debt Service	Debt Service Schedules					

\*Salary increases are based on actual step increases and approved Memoranda of Understanding with the bargaining units from FY 2024-25 through FY 2026-27. Beyond FY 2027-28 the assumption is 2% per year cost of living adjustment.

\*\* Benefit increase estimates are provided by CalPERS/Public Employees' Medical and Hospital Care Act (PEMHCA)

\*\*\* Based on historical trends.

The Town’s required employer contribution rate estimates were developed using data provided by each plan’s most recent CalPERS actuarial valuation. The employer contribution rates reflect percentages of covered payroll. Rates shown for FY 2024-25 are actual rates as prescribed by CalPERS. Forecasted rates for FY 2025-26 and subsequent years are based on the most recent CalPERS actuarial valuation Reports as adjusted by the impact related to the FY 2022-23 CalPERS 6.1% investment return and forecasted payroll.

Beginning in FY 2021-22, the estimates of employer contributions were credited with an anticipated reductions associated with the approximate \$4.8 million additional discretionary payment (ADP) toward the 2016 unfunded amortization base paid off in October 2019 and the total of approximately \$5.8 million in ADPs toward unfunded 2013 and 2015 amortization bases that were paid off in FY 2020-21.

Type of Expenditures	FY 2024-25 Budget	FY 2025-26 Forecast	FY 2026-27 Forecast	FY 2027-28 Forecast	FY 2028-29 Forecast	FY 2029-30 Forecast
<b>Safety POA</b>	94.98%	98.72%	102.27%	106.14%	115.00%	117.32%
<b>Safety Management POA</b>	97.98%	101.72%	105.27%	109.14%	118.00%	120.32%
<b>Safety POA - PEPPRA</b>	15.56%	15.56%	15.68%	15.69%	16.32%	16.61%
<b>Miscellaneous TEA/AFSCME/Confidential/Management</b>	30.62%	29.65%	31.01%	32.28%	33.81%	34.49%
<b>Miscellaneous TEA/AFSCME/Confidential/Management PEPPRA</b>						
Separate PEPPRA rate for Miscellaneous has not been established yet by CalPERS.	30.62%	29.65%	31.01%	32.28%	33.81%	34.49%