



TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA REPORT

MEETING DATE: 02/10/2025

ITEM NO: 4

DESK ITEM

DATE: February 10, 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

REMARKS:

Attachment 5 contains commissioner comments received after publishing the staff report and before 11:00 a.m. Monday, February 10, 2025.

Attachments previously distributed with the Staff Report:

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

Attachment distributed with this Desk Item:

5. Commissioner comments received after publishing the staff report and before 11:00 a.m. Monday, February 10, 2025.

PREPARED BY: Gitta Ungvari
Finance Director

Reviewed by: Town Manager

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From: [Phil Koen](#)
To: [Chris Constantin](#)
Cc: [Linda Reiners](#); [Gitta Ungvari](#)
Subject: 5 Year Forecast - unassigned GF reserve
Date: Saturday, February 8, 2025 9:43:21 PM

[EXTERNAL SENDER]

Chris,

I quickly reviewed the FC package for the Monday meeting. I would like to suggest the risk of shortfall in a town's budget should be managed through an unassigned general fund reserve rather than by making conservative budgeting assumptions, such as underestimating revenue or overestimating expenses. Here's why:

1. **Capital Efficiency:** Conservative budgeting can result in inefficient allocation of resources. If revenue is consistently underestimated or expenses are overestimated, the town may unnecessarily restrict spending on critical services and infrastructure, leading to suboptimal service delivery.
2. **Budget Transparency and Accuracy:** An objective approach to forecasting, as recommended by the Government Finance Officers Association (GFOA), ensures that revenues and expenditures are **estimated as accurately as possible**. This allows for a clearer financial picture and better decision-making by the Town Council.
3. **Unallocated Reserves Provide Flexibility:** Instead of inflating expenses or underestimating revenue to create an artificial buffer, an unassigned general fund reserve can be used to absorb actual shortfalls or unforeseen events. This approach allows the town to maintain a balanced budget while responding to unexpected financial challenges.
4. **Long-Term Stability:** If conservative budgeting leads to systematic under-budgeting, essential projects and services may be deferred unnecessarily. This could increase costs in the long run as maintenance backlogs grow and emergency spending becomes necessary.
5. **Strategic Financial Management:** By maintaining an appropriate reserve, the town can manage risk effectively without compromising its ability to meet operational needs. The Five-Year Forecast already includes a sensitivity analysis that considers different revenue scenarios, which helps prepare for financial fluctuations without distorting budget estimates.

In summary, an unassigned general fund reserve serves as a more effective financial tool for managing shortfalls than conservative budgeting assumptions, ensuring fiscal responsibility while preserving the town's ability to meet its needs efficiently.

I have some additional thoughts on the 5 year forecast which I shall share when I have a moment.

Phil Koen