



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 04/22/2025

ITEM NO: 1

DESK ITEM

DATE: April 22, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: Discussion and Consideration of Direction for the 2025-26 Budget Including Budget Balancing Approaches

REMARKS:

Attachment 3 contains Public Comment received before 11:00 a.m., Tuesday, April 22, 2025.

Attachments (previously distributed with the staff report):

1. Five-Year Financial Revenue Assumptions
2. Five-Year Financial Expenditure Assumptions

Attachment (distributed with this Desk Item):

3. Public Comment

From: [Phil Koen](#)
To: [Chris Constantin](#); [Gitta Ungvari](#); [Wendy Wood](#)
Cc: [Linda Reiners](#); [Matthew Hudes](#)
Subject: GFOA Best Practices - Effective Budgeting of Salaries and Wages - Special Study Session
Date: Monday, April 21, 2025 3:48:40 PM
Attachments: [www.gfoa.org.pdf](#)

[EXTERNAL SENDER]

Chris,

Since the Staff memo mentions GFOA Best Practices, I have taken the liberty to attach the GFOA Best Practice on Effective Budgeting of Salaries and Wages. This was the best practice the Finance Commission relied upon we made the recommendation to create a vacancy factor of 4.6% when budgeting total salary and wages. I was part of that decision and supported the vacancy factor.

The 4.6% vacancy factor was determined based on a 5 year review of historical vacancy trend and actual expenses vs budget for the Town's salary and wages. In FY 24, the adopted budget called for total wages of \$23.2m with an offsetting \$1.7m in a vacancy factor, resulting in \$22.5m net budget salary expense. The FY 24 actual salary expense was \$21.9m, which was less than the \$22.5m adopted net budget.

The vacancy factor in FY 24 achieved what GFOA recommends, namely not budgeting for all positions since not all positions are filled for the entire year. To ignore the historical vacancy factor will certainly result in an unnecessary budget cushion for salary and wages at a time when financial resources are scarce. This leads to a misallocation of the Town's capital and potentially other critical needs going unfunded.

In closing, in looking over the past 10 years of budget vs actual results for salary and wages expense, there is absolutely no evidence that by applying a prudent vacancy factor to the annual budget for salary and wages the Town is increasing the risk the Town could fill vacant positions. Rather it is just the opposite - it is applying prudent budgeting procedures recommended by GFOA by acknowledging that not every budgeted position is filled for the entire year and thus avoiding misallocating capital and enabling other critical needs to be appropriately budgeted.

Please note these are my personal thoughts as a member of the Finance Commission and I am not representing the entire Finance Commission.

Thank you,

Phil Koen
Member of the Finance Commission



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BEST PRACTICES



Effective Budgeting of Salary and Wages

Every government should consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel.



Given the funding constraints governments are facing, accurate expenditure projections are more important than ever. Since salaries make up the greatest portion of the expenditure budget, it is logical to apply forecasting techniques that can provide a true picture of where payroll dollars are headed. Another consequence of slowing revenues is the need for greater control over expenditures. Governments can use various mechanisms to

manage headcount levels in light of cost constraints.

GFOA encourages every government to consider forecasting procedures that would result in more accurate expenditure projections, especially as they relate to personnel. The items shown below provide governments with the areas in which they should consider adopting practices to more effectively budget salary and wages. Additionally, in order to analyze total compensation, benefits need to be considered.

Personnel Tracking System. Budget payroll projections are based on the estimate of budgeted positions for the year, so providing the correct number of budgeted positions is important. The system to track budgeted positions may reside in the human resources department rather than the budget department, so it is vital that the departments work together to be consistent in reporting. The system should be able to track all types of employees, not just full-time.

Vacancy Adjustments. Not all positions will be filled 52 weeks per

year, so expected vacancies need to be addressed in the salary budget. In doing so, however, governments should consider developing policies on how to treat these vacancies. If the government fully funds salaries associated with vacancies, it is building some potential cushion into the budget. Items to consider:

- **Start Dates.** Expected start dates for open positions may vary. Keeping track of those assumptions is important because a large dollar variance may result when an actual start date differs from the budgeted date.
- **Trends.** Since most governments experience some vacancies during the year, it may be prudent to include a hiring lag in the budget. One way to determine the dollar impact of this lag is to review trends (average filled positions per year versus average vacant positions). This analysis can be conducted at the department level or broken out by individual position. In forecasting open positions, organizations should keep in mind that technical or higher level positions are usually harder to fill.
- **Frozen or Eliminated Positions.** Many open positions are intentionally being left vacant. While some of these positions

may be eliminated before the start of the fiscal year, other positions may be temporarily frozen once the fiscal year begins. The dollars saved by not filling these positions should be quantified. If the positions being eliminated are currently filled, then the government might also need to include severance payouts in the budget. Governments are also using furloughs as a means to reduce expenditures. Those cost savings should be identified as well.

- **Funded Versus Unfunded Positions.** Not every position that is requested gets approved. Approved, or funded, positions along with the money to pay for them are included in the budget. Unfunded positions, or those that were requested but not approved, should be noted, especially if management decides at some point to reconsider some of those denied position requests. Departments often include new positions in their budget requests, typically in the departmental request stage. In detailing new positions in the final budget presentation, it is useful to categorize them as funded or unfunded. This way, budget decision makers can clearly identify those unfilled positions that do not have budget dollars available. The budgetary implications of not funding those positions could also be shown.

- **Attrition (Planned Retirements).** Budget consideration should be given for those positions where employees have indicated specific retirement dates. Payouts need to be budgeted. Also, if governments use retirement incentives, the potential loss in quality of service should be considered.

Collective Bargaining Units. When the personnel budget is being developed, the positions that are covered under collective bargaining should be noted. The group name and representation should be identified, along with the beginning and end date of the contract. Also, the government should use consistent terminology when referring to union and non-union payroll items.

- **Contract Settlements.** Be aware of key dates in contract provisions. It may be prudent to set aside reserves for contract settlements, especially if the new terms are expected to be less favorable than those in the existing contracts.
- **Other Considerations.** Some union agreements include items such as overtime, holiday premiums, shift differentials, uniform allowances, and license/certification pay. These should also be accounted for in the budget, as failure to do so could lead to significant cost overruns.

Impact of Inflation. Inflation can have a significant impact on

payroll forecasting. Cost-of-living adjustments often are used when forecasting personnel costs. The Consumer Price Index (CPI), a broad measure of consumer inflation, is the cost-of-living index used most often for determining salary increases. The U.S. Bureau of Labor Statistics Employment Cost Index might be a better index for this purpose, as it measures the change in the cost of labor, free from the influence of employment shifts among occupations and industries.

Optimal Staffing Level. One of the biggest challenges a government will face is determining the **optimal level of staff** needed to meet the organization's goals and objectives.

- **Comparison to Other Governments.** Some governments use a population-to-employee ratio to indicate proper staffing levels. Jurisdictions can compare themselves with surrounding communities and even specific departments, although the effects of privatization can skew such a comparison.
- **Staffing Guidelines.** The organization might have specific policy guidelines that serve as a basis for determining hiring levels. For example, some school districts set up support staffing sheets to specify what personnel can be hired. Hiring

levels might be based on such factors as the number of schools in a district, the size of an individual school in square feet, or a school's enrollment.

- **Classifying Positions by Goal.** Hiring decisions should be made to fulfill strategic initiatives, based on clear goals and specific action plans that have been established to help accomplish those goals. Most governments budget personnel by department. A number of governments have moved beyond this traditional approach, however, and started to classify positions in other ways.
- **Use of Volunteers.** It is becoming increasingly common to encourage the use of volunteers in certain programs and services. Fire department staffing provides a classic example of volunteer usage.
- **Seasonal and Temporary Positions.** Some divisions or jurisdictions use part-time or seasonal employees. Park districts, for example, often adjust staffing levels by season.
- **Other Considerations.** Some governments make more use of overtime as an option instead of hiring full-time workers. The use of retired employees for contractual services is another alternative to adding headcount.

Compensation Approaches. When analyzing budgeted position compensation, the following items should be considered:

- **Step and Grade Systems.** Many governments use a salary range or grade structure for budgeting individual positions. Others, however, have begun to transition away from longevity-based systems in favor of pay for performance systems.
- **Pay for Performance.** Pay for performance is intended to foster workplace productivity. The anticipated impact comes from the ability to reward performance and thereby attract and retain quality employees. A onetime bonus is an option to reward productivity and is sometimes used in lieu of a pay increase. Pay for performance faces a number of challenges, including the cost of monitoring employee performance and the design of a useful appraisal system.
- **Wage Surveys.** Monitoring the average wage increases in other jurisdictions can help a government determine the appropriate level and validity of salary range or grade structures for its own annual salary increases. This information can be obtained by subscribing to government- or industry-specific journals, engaging a consultant,

reviewing peer government budget documents, or contacting other governments directly to ask questions.

Personnel Categorization. A traditional way of approaching the personnel budget is the view that each position directly affects the operating budget. This may not always be true, however.

- **Capital versus Operating Classification.** Consideration should be given to the percentage of time that an individual may be working on capital versus operating projects.
- **Cost Allocation.** A similar approach to moving personnel expenses out of the operating budget is the use of a well-developed cost allocation plan. Such a plan allows the government to shift costs to specific activities.
- **Funding Sources.** If a new position is created based on an outside funding source, care should be taken to ensure that the source is not a one-time occurrence.
- **Privatization or Shared Services.** To save money or improve services, many governments have turned to the private sector or to other governments as alternatives to in-house service delivery or staffing. The services most often provided collaboratively include health and human services, transit

systems, airports, sewage collection, disposal of hazardous wastes, libraries, tax assessing, and title records.

Monitoring. Governments need to monitor the salary and wages budget through the year, not just when the budget is being put together. Should actual results deviate from the budget in a significant fashion, then adjustments need to be made.

References:

- GFOA Best Practice: *Examining the Benefits of Managed Competition*, 2006.
- GFOA Best Practice: *Budgeting for Results and Outcomes*, 2007.
- GFOA Best Practice: *Alternative Service Delivery: Examining the Benefits of Shared Services*, 2008

Board approval date: Wednesday, March 31, 2010

Additional resources



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