



**TOWN OF LOS GATOS  
FINANCE COMMISSION: SPECIAL MEETING  
AGENDA  
FEBRUARY 2, 2026  
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 by following the instructions listed below or at the end of the agenda.

**To watch and participate via Zoom, please go to:**

<https://losgatosca-gov.zoom.us/j/84834011781?pwd=rHVGVbWjNaaM6U6ZB5AbaZUF1ToV9.1>

Enter passcode: 998589

**CALL MEETING TO ORDER**

**ROLL CALL**

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Commission only on matters listed on the agenda. Town resources may not be used to facilitate audio or visual presentations. Each speaker is limited to three minutes or such time as authorized by the Chair.)*

**OTHER BUSINESS** *(Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.)*

- 1. Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback**

**ADJOURNMENT**

**ADA NOTICE** - In compliance with the Americans with Disabilities Act, if you require special assistance to participate in this meeting, please contact the Clerk's Office at (408) 354-6834. Please notify the Clerk's Office at least two (2) business days prior to the meeting so that reasonable arrangements can be made to ensure accessibility in compliance with 28 CFR §35.102-35.104 and related provisions.

**NOTICE REGARDING SUPPLEMENTAL MATERIALS** - 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 the Town's website at [www.losgatosca.gov](http://www.losgatosca.gov). Town Commission agendas and related materials can be viewed online at <https://losgatos-ca.municodemeetings.com/>.

## 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/84834011781?pwd=rHVGvPbwjNaaM6U6ZB5AbaZUF1ToV9.1)

[gov.zoom.us/j/84834011781?pwd=rHVGvPbwjNaaM6U6ZB5AbaZUF1ToV9.1](https://losgatosca.gov.zoom.us/j/84834011781?pwd=rHVGvPbwjNaaM6U6ZB5AbaZUF1ToV9.1)

Passcode: **998589** You can also type in **848 3401 1781** in the “Join a Meeting” page on the Zoom website at zoom.com and use passcode **998589**.

When the Chair 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 1 (855) 758-1310 for US Toll-free or 1 (408) 961-3927 for US Toll. (Meeting ID: **848 3401 1781**)

If you are participating by calling in, press \*9 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:** Comments will be limited to three (3) minutes or less at the Chair’s discretion.

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.

Deadlines to submit written comments are:

-11:00 a.m. the business day 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.



**TOWN OF LOS GATOS  
FINANCE COMMISSION**

MEETING DATE: 02/02/2026

ITEM NO: 1

Item 1.

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DATE: February 2, 2026  
TO: Mayor and Town Council  
FROM: Chris Constantin, Town Manager  
SUBJECT: **Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback**

RECOMMENDATION: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and provide feedback.

BACKGROUND:

On October 21, 2025, the Town Council authorized the Town Manager to execute an agreement with NHA Advisors, LLC for fiscal analysis. The purpose was to provide independent, data-driven forecasts and risk assessments to support long-term financial planning and liability management.

DISCUSSION:

Since the original approval, NHA Advisors has completed preliminary modeling and provided an updated five-year and long-term forecasts (attachment 1) and Fiscal Analysis for the May 2024 Housing Element.

The purpose of this preliminary model is to have a discussion of assumptions used for both revenue and expenditure categories as well as the Housing Element analysis by NHA Advisors and for the Commission to provide feedback to the consultants that will be shared with the Council at the February 3, 2026, meeting.

**Review of Financial Forecast Assumptions and Budget Drivers:**

- Understand underlying data sources and relevant economic factors influencing the Town's revenue projections, including how recent economic trends and updated estimates from outside consultants should be factored into the baseline model

PREPARED BY: Kristina Alfaro  
Administrative Services Director

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Reviewed by: Town Manager, and Town Attorney

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SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback

DATE: February 2, 2026

- Distinguish between predictable and less-predictable revenue categories to understand how those sensitivities impact the Town's financial outlook
- Review staffing trends and expenditure drivers that outpace inflationary trends
- Normalize for one-time or ad hoc items in the annual budget process to improve ongoing long-term estimates

#### Next Steps:

- |   |                  |
|---|------------------|
| 1. Present draft forecast model to the Town Council | February 3, 2026 |
| 2. Develop scenarios for comparison                 | March 2026       |
| 3. Prepare Draft/Final Report                       | March/April 2026 |

#### Baseline Fiscal Impact Analysis for the May 2024 Housing Element

The analysis was prepared consistent with Fiscal Impact methodology used in California, which is consistent with the example study provided in the RFP. Several public finance firms prepare these analyses with similar assumptions and methods. In putting this one together, my objective was to limit assumptions and "industry best practices" as much as possible to arrive at an objective conclusion.

#### Revenues

Property Taxes represent the largest source of revenue from the residential development contemplated in the Housing Element. The following assumptions were made in developing the property tax revenue estimates:

- Quantity of units in each of the four categories was taken from Table D-2: 191 pipeline units, 200 accessory dwelling units, 1,331 owner interest/site plan units, and 624 units from other sites.
- Pipeline projects are assumed to start immediately and take four years to build out.
- Owner interest/site plans are assumed to start next year and take 15 years to build out.
- Accessory Dwelling units are assumed to start next year and take 15 years to build out.
- Other sites are expected to start in 2031 and take 10 years to build out.
- Because there was no direct source for the price of a market rate multi-family unit in Los Gatos, I used an amount equal to 70% of the overall median home value (according to Zillow), which is a common assumption. This came out to \$1,711,935.
- Since there is a mix of Low-Mod and market rate units, I disaggregated the development based on Table D-1 and assumed that the price of the units would be proportional to income levels (as a percentage of the median income estimated in the Housing Element Update). This analysis yielded a weighted average home value of \$1,627,451.
- Accessory dwelling units are expected to cost about \$350,000 to construct, and since they are on existing properties, they will not be sold. The value of the construction will be the increase in assessed value.

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SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback

DATE: February 2, 2026

- After all planned units have been developed, the new Assessed Value is estimated to be about \$3.6 billion.
- The weighted average AB 8 apportionment factor for secured property taxes was calculated to be about 9.5%. Property Tax In-Lieu of VLF came out to an additional 2.8%.
- After all units have been developed, new property tax revenues will equal about \$4.4 million in 2026 dollars.

Sales and Use Tax represents the third largest source of revenue from the residential development contemplated in the Housing Element. The following assumptions were made in developing the sales tax revenue estimates:

- Sales tax revenues are equal to 1.125% of taxable sales, which includes the general sales tax rate and Measure G.
- A similar analysis was prepared to account for the mix of low-mod units with market rate units. The annual income was estimated for each household, and those amounts were tied to the Consumer Expenditure Survey to estimate how much in taxable sales each household will generate.
- A leakage rate estimate of 40% was used. Some studies have shown higher leakage rates for small suburban communities, but online retail has increased substantially in recent years, and the use tax mechanism will capture those revenues from Los Gatos residents.
- Sales and use tax revenues are estimated to be \$150 per household per year, resulting in revenues of \$351,675 at buildout.

Other Revenues include Franchise Fees, Licenses & Permits and Fines & Forfeitures.

- These were determined using multipliers that account for both residents and employees. At buildout, we are expecting 5,035 new residents.
- Franchise fees are estimated at \$23.77 per new resident.
- Licenses & Permits are estimated at \$144.00 per new resident.
- Fines & Forfeitures are estimated at \$7.18 per new resident.

At buildout (in current year dollars), the Housing Element is expected to generate about \$5.6 million in new revenues.

## **Expenditures**

Police Department, Parks & Public Works, Community Development, and Library Services were used to develop multipliers to estimate future expenditures.

- Non-Departmental, Administrative Services and Town Council Expenditures were considered overhead. After excluding non-operating expenditures, the overhead percentage was calculated to be 28.9%.

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SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback

DATE: February 2, 2026

- Adjustments were made to Parks/Public Works, Community Development, and Non-Departmental to account for fees collected for services. The amounts taken from the Adopted Budget were deducted from the Expenditure total to arrive at a net cost.
- Police Department is estimated at \$690.26 per new resident.
- Parks and Public Works is estimated at \$332.21 per new resident.
- Community Development is estimated at \$121.75 per new resident.
- Library is estimated to be \$141.33 per new resident.

At buildout, the City is expected to take on about \$6.5 million in new expenditures.

### **Preliminary Conclusions**

The estimated net deficit at buildout is expected to be \$832,445.

This represents \$405.77 per residential unit. Willdan recommends developing a CFD for new development to help offset this amount and ensure fiscal neutrality for new development. For master planned communities, an additional tax may be added to help with maintenance and servicing of any new infrastructure and/or public facilities to be owned and operated by the Town.

We also noticed that with Licenses & Permits revenues of \$6.3 million and service revenues of \$5.7 million, the Town could possibly benefit from a User Fee Study that achieves a greater level of cost recovery.

Although this analysis focuses on ongoing, recurring expenditures, we also recommend that the Town update their Capital Improvement Plan and Development Impact Fees to ensure that the new development is required to pay for the infrastructure that their residents will necessitate.

### **CONCLUSION:**

As the Town continues to pursue various options to close the projected structural deficit and unfunded capital and operational needs, this independent review helps validate the anticipated budget gaps. The consultant's baseline forecast, although it varies from year to year, remains in line with the finance staff's original forecast even as new data and information are incorporated into the projections.

Additionally, the Housing Element Analysis shows that planned residential development will generate approximately \$5.6 million in new revenues and \$6.5 million in new expenditures, resulting in a net deficit of \$832,445 at buildout.

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SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback

DATE: February 2, 2026

To ensure fiscal neutrality, recommendations include establishing a Community Facilities District (CFD), conducting a User Fee Study for improved cost recovery, and updating Capital Improvement Plans and Development Impact Fees to address infrastructure needs.

Attachments:

1. Presentation

AS OF 1/30/2026

# Los Gatos

## Baseline Forecast Model and Assumptions

### Finance Commission

February 2, 2026





# Agenda

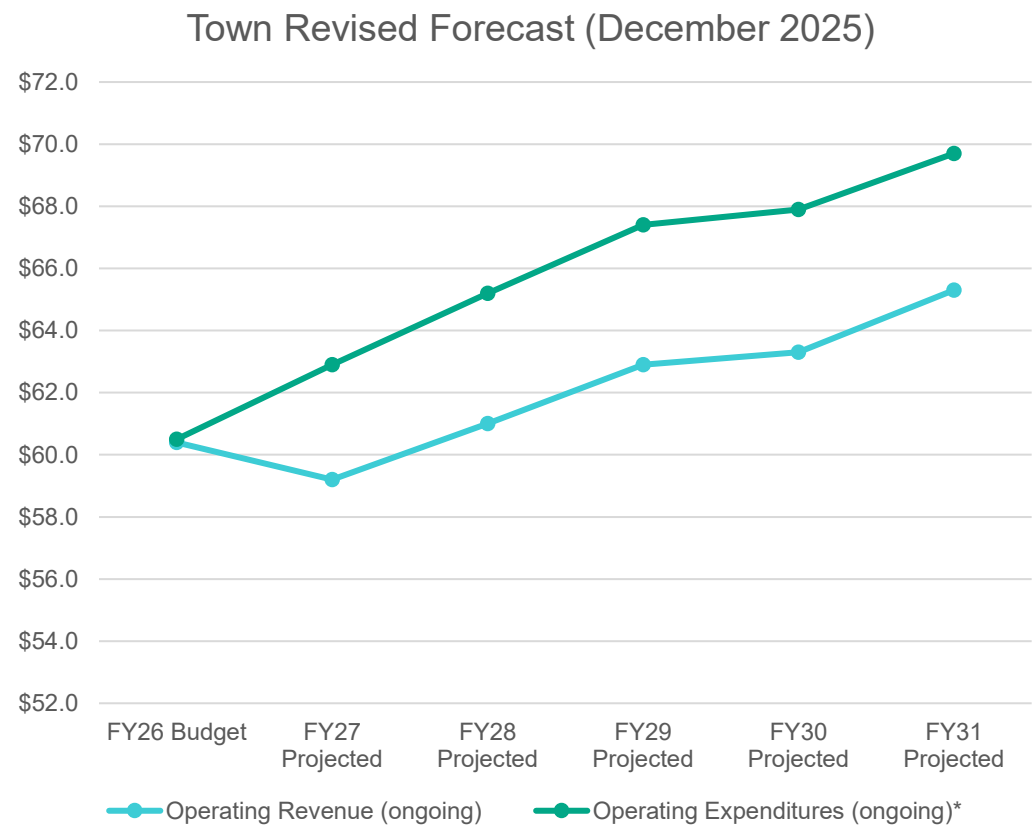
1. Project Overview
2. Financial Context
3. Initial Baseline Forecast  
Assumptions
4. Preliminary Outlook
5. Next Steps

# Project Timeline

TASK	TIMELINE
Project Kick-Off	November 2025
Data/Document Review and Baseline Model Setup	December 2025
Assess Financial Condition and Develop Baseline Projection	January 2026
Present Assumptions and Projections to Finance Commission	February 2, 2026
Present Assumptions and Projections to Town Council	February 3, 2026
Finalize Dashboards and Train Staff on Model Use	March 2026
Prepare Draft/Final Report	March/April 2026

# Financial Context






# Projected Structural Deficit



## Drivers

- Sales tax elasticity
- Revenue returning to normal growth
- Labor market competitiveness
- Growing benefit costs, including pension and retiree healthcare
- Some non-personnel expenditures outpacing inflationary cost

# General Fund (GF) - Primary Revenues

Source	Percent of Total GF Revenue (%) <sup>1</sup>	Underlying Economic Factors and Trends	Predictability
Property Tax <sup>2</sup>	45%	<ul style="list-style-type: none"> <li>Regaining population from pre-Covid</li> <li>Increasing valuation, capped by Prop 13</li> <li>Steady new construction with growing pipeline</li> <li>Mixed real estate indicators for home turnover</li> </ul>	
Sales and Use Tax <sup>3</sup>	13%	<ul style="list-style-type: none"> <li>Consumer spending habits, inflation</li> <li>Consultant assisting with proprietary data to help forecast</li> <li>Modest growth dependent on industry, high elasticity</li> <li>Transportation sector impact with electric vehicles and fewer dealerships</li> <li>Potential for higher leakage as a bedroom community</li> </ul>	
Licenses and Permits	11%	<ul style="list-style-type: none"> <li>Permit volume/trends and recent fee schedule update</li> <li>Significant adjustment to base budget with reclassification of solid waste revenue</li> </ul>	
Town Services	10%	<ul style="list-style-type: none"> <li>Customer/resident volume, difficult to predict with modest population growth</li> <li>Future revenue growth dependent on policy changes for cost recovery and fee schedules</li> </ul>	
Business License and Transit Occupancy Tax	8%	<ul style="list-style-type: none"> <li>Linked to regional inflation and principal employers (existing base)</li> <li>Hotel capacity and occupancy rates</li> <li>Commercial development (permits)</li> </ul>	

<sup>1</sup> Based on FY 2025-26 Budget of \$59.8 million

<sup>2</sup> Includes Vehicle License Fee (VLF) backfill property tax revenue, approximately 9% of total GF revenue

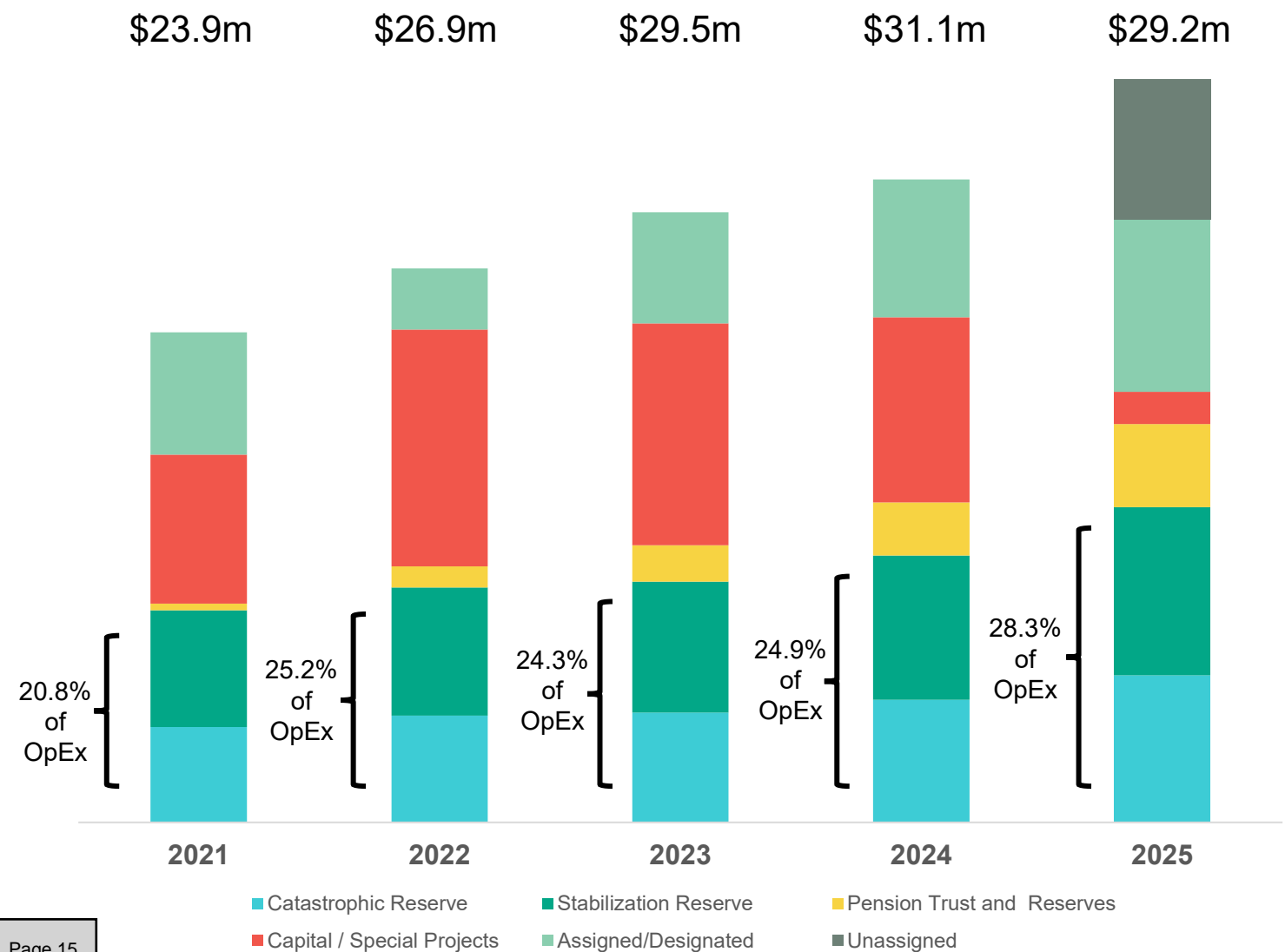
<sup>3</sup> Includes Measure G District Sales Tax revenue, approximately 2% of GF revenue

# General Fund (GF) – Primary Expenditures

Source	Percent of Total GF Revenue (%) <sup>1</sup>	Drivers	Recent Trends
<b>Salaries and Benefits</b>	66%	<ul style="list-style-type: none"> <li>Negotiated salary increases</li> <li>CalPERS required contribution and unfunded accrued liability (UAL)</li> <li>Medical benefit rates</li> <li>Growing number of retirees</li> </ul>	<ul style="list-style-type: none"> <li>Minimal position growth</li> <li>Stabilizing staffing levels</li> <li>Wage growth to match inflationary cost of living</li> <li>Growing pension allocation</li> <li>Increasing medical costs</li> </ul>
<b>Nonpersonnel Expenditures</b>	21%	<ul style="list-style-type: none"> <li>Contracts / purchased services</li> <li>Materials and supplies</li> <li>Utilities</li> <li>Retiree healthcare</li> </ul>	<ul style="list-style-type: none"> <li>Vendors transitioning to subscription based model, especially public safety equipment</li> <li>Increased reliance on outside legal counsel, consulting, and other technical expertise</li> <li>Water and energy costs trending above inflation</li> </ul>
<b>Internal Service Charges</b>	8%	<ul style="list-style-type: none"> <li>Workers Compensation and General Liability insurance pools</li> <li>Ongoing facility maintenance needs</li> <li>Technology and vehicle replacement schedules</li> </ul>	<ul style="list-style-type: none"> <li>Aging facilities/infrastructure, leads to more reactive maintenance</li> <li>Deferred capital investment to balance budget</li> <li>Changing JPA for insurance to try and mitigate cost increases</li> <li>Safety and risk management related to adequate staffing levels for service delivery</li> <li>Recent technology investments</li> </ul>

<sup>1</sup> Based on FY 2025-26 Budget of \$60.4 million

# General Fund Balance



- Steady growth with strong financial policies in place that exceed GFOA minimums
- Growth supported by conservative revenue forecasting practices, adding to fund balance
- Unexpected (external) change across the operating budget could quickly absorb reserve balances
- Fine-tuning the revenue forecast may tighten the ability to add significant savings year-over-year

# Forecast Model Assumptions



# Guiding Principles

- Baseline model is “status quo” – what will it cost to provide the same level of service over the next ten years as it does today?
- Scenarios will provide basis for evaluating key policy decisions
- Fine-tune revenue assumptions to bring in-line with actual performance, intentionally conservative estimates for revenues with greater volatility
- Appropriately capture asset management life cycle needs
  - › IT and Fleet replacement, Facilities maintenance

# Revenue Assumptions



# Revenue Assumptions: Property Tax

Historical Trend		
FY	Actual	% Change
2019	\$13,636,099	N/A
2020	\$14,454,513	6.0%
2021	\$15,826,162	9.5%
2022	\$16,899,618	6.8%
2023	\$18,187,388	7.6%
2024	\$19,321,147	6.2%
2025	\$20,157,765	4.3%
2026 Budget	\$21,450,971	N/A
Page 19	Average Change	6.7%

## Predictability:

- Historical average budget-to-actual variance of 5.6%
- Consistent growth year-over-year
- Difficulty predicting turnover
- ERAF risk - \$3.2 million of base (most recent County data)



## Relevant Data Sources for Projecting Estimates:

- Property valuation history (Santa Clara County)
- Housing Element Plan
- Home sales and median sale price
- Home ownership demographics (US Census)

Raftelis Preliminary Assumption:5.1% (blended)

- Based on overall valuation growth within Prop 13 limits
- Anticipated new development driving new construction
- Historical turnover data along with real estate market indicators

# Revenue Assumptions: VLF Backfill Property Tax

Historical Trend		
FY	Actual	% Change
2019	\$3,685,247	N/A
2020	\$3,875,914	5.2%
2021	\$4,052,672	4.6%
2022	\$4,229,462	4.4%
2023	\$4,555,700	7.7%
2024	\$4,906,019	7.7%
2025	\$5,109,100	4.1%
2026 Budget	\$5,377,328	N/A
Page 20	Average Change	5.6%

## Predictability:

- Average budget-to-actual variance of 3.4%
- Consistent growth year-over-year
- Subject to state legislative changes



## Relevant Data Sources for Projecting Estimates:

- Historical revenue collection (Town)
- Property valuation history (Santa Clara County)
- Housing Element Plan

**Raftelis Preliminary Assumption: 5.2%**

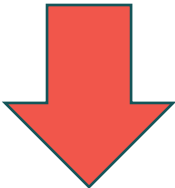
- Based on historical growth patterns
- Assumes no change in state allocation methodology

# Revenue Assumptions: Sales and Use Tax

Historical Trend		
FY	Actual	% Change
2019	\$8,158,152	N/A
2020	\$7,531,425	(7.7%)
2021	\$6,794,218	(9.8%)
2022	\$7,177,597	5.6%
2023	\$7,507,068	4.6%
2024	\$6,795,037	(9.5%)
2025	\$6,992,336	2.9%
2026 Budget	\$6,639,081	N/A
Average Change		(2.3%)

## Predictability:

- Average budget-to-actual variance of (5.7%)
- High elasticity and volatility by industry
- Sensitive to local, commercial economic changes
- Impact of transportation industry (including gas tax)



## Relevant Data Sources for Projecting Estimates:

- Consultant estimates
- Revenue history
- Consumer spending metrics - GDP, employment, median household income

## Raftelis Preliminary Assumption:

Weighted Avg 2.0%

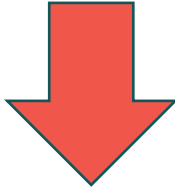
- Reviewed distribution of sales tax generated by industry/type
- Adjusted 2026 base budget with most recent confidential economic data
- Determined conservative growth assumption based on recent consultant report for each industry, then weighted based on distribution

# Revenue Assumptions: Licenses and Permits

Historical Trend		
FY	Actual	% Change
2019	\$3,044,490	N/A
2020	\$2,673,706	(12.2%)
2021	\$3,003,475	12.3%
2022	\$4,814,650	60.3%
2023	\$3,283,848	(31.8%)
2024	\$3,993,247	21.6%
2025	\$6,681,657	67.3%
2026 Budget	\$6,322,712	N/A
Page 22	Average Change	19.6%

## Predictability:

- Average budget-to-actual variance of 18.7%
- Volatile through the pandemic
- 2026 base budget is reflective of recent adjustments and fee changes



## Relevant Data Sources for Projecting Estimates:

- Fee schedule and revenue history (Town)
- Residential and commercial permit data
- Solid Waste JPA revenue (recent valuation change)

## Raftelis Preliminary Assumption:

1.2%

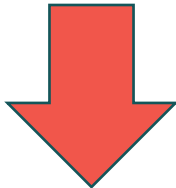
- Assumes ongoing solid waste revenue (now reflected in the base) remains flat year-over-year
- Increase driven primarily by Community Development growth, assumed increase of 1.8%

# Revenue Assumptions: Town Services

Historical Trend		
FY	Actual	% Change
2019	\$4,440,606	N/A
2020	\$4,373,603	(1.5%)
2021	\$4,778,695	9.3%
2022	\$5,310,271	11.1%
2023	\$4,631,325	(12.8%)
2024	\$5,913,520	27.7%
2025	\$5,405,507	8.6%
2026 Budget	\$5,736,735	N/A
Page 23	Average Change	4.2%

## Predictability:

- Average budget-to-actual variance of 14.9%
- High volatility driven by volume of activity from year-to-year
- Base budget is in-line with recent actuals (post-COVID)



## Relevant Data Sources for Projecting Estimates:

- Revenue history by department (Town)
- Permit Data (volume and valuation)

Raftelis Preliminary Assumption:1.1%

- Weighted assumptions for each department:
  - CDD (40% of total) – declining growth 2% based on past two years of permit trends (post-COVID)
  - Police (24% of total) – increasing growth of 7%
  - Parks and Public Works (31% of total) – flat 0%

# Revenue Assumptions: Business License Tax

Historical Trend		
FY	Actual	% Change
2019	\$1,526,894	N/A
2020	\$1,357,080	(11.1%)
2021	\$1,386,943	2.2%
2022	\$1,481,667	6.8%
2023	\$2,361,862	59.4%
2024	\$1,519,960	(35.6%)
2025	\$2,975,721	95.8%
2026 Budget	\$2,493,992	N/A
Average Change		19.6%

## Predictability:

- Average budget-to-actual variance of 10.0%
- Part of volatility attributable to audit and adjustments in prior years
- Core businesses have more stable growth



## Relevant Data Sources for Projecting Estimates:

- HdL Estimates – existing base growth (more predictable)
- Historical collections (higher volatility, influenced by audits)
- Regional CPI-U (Bureau of Labor Statistics)
- Commercial permit data

**Raftelis Preliminary Assumption:** 1.5%

- Normalize recent adjustments in 2024-2025
- Leverage HdL estimates – moderate growth assumption is 1.5%
- Consumer Price Index drives underlying growth



# Revenue Assumptions: Transient Occupancy Tax

Historical Trend		
FY	Actual	% Change
2019	\$2,692,043	N/A
2020	\$1,869,685	(30.5%)
2021	\$1,044,820	(44.1%)
2022	\$1,895,064	81.4%
2023	\$2,228,190	17.6%
2024	\$2,367,653	6.3%
2025	\$2,417,630	2.1%
2026 Budget	\$2,422,390	N/A
Average Change		5.4%

## Predictability:

- Average budget-to-actual variance of 10.4%
- Post-Covid relatively predictable
- Changes in local economy impact overall growth



## Relevant Data Sources for Projecting Estimates:

- Number of hotels
- Occupancy rates and pricing
- Revenue collection history (Town)

Raftelis Preliminary Assumption: 3.0%

- Adjusted for recent change in tax base (flat between 2025-2026)
- Considers historical collections, occupancy, and pricing
- Most recent two-year growth rate given pandemic volatility

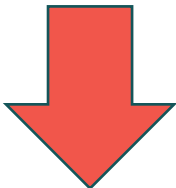
# Revenue Assumptions: Interest Income

Historical Trend		
FY	Actual*	% Change
2019	\$1,445,640	N/A
2020	\$2,238,102	54.8%
2021	\$58,250	(97.4%)
2022	-\$1,404,526	(2511.2%)
2023	\$584,171	(141.6%)
2024	\$2,597,723	344.7%
2025	\$2,935,466	13.0%
2026 Budget	\$1,567,774	N/A
Average Change		(389.6)%

\*Includes mark-to-market adjustment

## Predictability:

- Significant budget-to-actual variance in recent years
- Required mark-to-market accounting adjustments (non-cash)
- Impact of pandemic and recent rate cuts to curb inflation



## Relevant Data Sources for Projecting Estimates:

- Average cash-on-hand and investment balances
- Federal Reserve activity
- State Treasurers Office performance for LAIF

**Raftelis Preliminary Assumption: 2.6% (weighted)**

- Removes non-cash adjustments
- Applies anticipated earnings between investments and cash
- Weighted based on distribution of funds, investment amount reduced over time for the impact of structural deficit

# Expenditure Assumptions



# Expenditure Assumptions: Wages

Historical Trend		
FY	Actual	% Change
2019	\$17,930,591	N/A
2020	\$18,884,569	5.3%
2021	\$19,869,768	5.2%
2022	\$19,440,301	-2.2%
2023	\$21,385,026	10.0%
2024	\$22,529,072	5.3%
2025	\$23,146,975	2.7%
2026 Budget	\$23,840,242	N/A
Page 28	Average Change	4.4%

## Assessment:

- Average budget-to-actual variance of 3.8% (under budget)
- Minimal position growth
- Recent vacancy factor introduced, need to monitor as staffing stabilizes

## Relevant Data Sources for Projecting Estimates:

- Actual expenditure history (Town)
- Salary schedules and labor agreements (Town)
- Historical position growth to meet existing service profile

Raftelis Preliminary Assumption:	Varies
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- No salary savings assumption, based on actual rather than budgeted costs
- Overtime budget remains flat based on recent activity and prior base budget adjustments
- Contractual wage growth by bargaining unit with assumed cost-of-living inflationary growth after 2027

# Expenditure Assumptions: CalPERs

Historical Trend		
FY	Actual	% Change
2019	\$5,282,681	N/A
2020	\$6,059,646	14.7%
2021	\$6,374,119	5.2%
2022	\$6,531,958	2.5%
2023	\$7,091,215	8.6%
2024	\$7,431,198	4.8%
2025	\$8,220,124	10.6%
2026 Budget	\$9,907,119	N/A
<div>Page 29</div> <div>age Change</div>		7.7%

## Assessment:

- Average budget-to-actual variance of 9.3% (under budget)
- Rely on Town’s actuarial analysis for required contribution
- Review covered payroll assumptions

## Relevant Data Sources for Projecting Estimates:

- Annual actuarial valuation reports (Misc and Public Safety)
- Covered payroll - salary schedules and labor agreements
- Pre-established reserve policy – Pension Trust

Raftelis Preliminary Assumption:	Varies
<ul style="list-style-type: none"> <li>• Covered payroll estimates for Misc and Safety with valuation report blended contribution rates (includes UAL amortization)</li> <li>• Assumes inflationary growth in covered payroll similar to wages</li> <li>• Average growth of 3.1% in contributions over the next 10yrs, ranging from 0% to 7% any given year</li> </ul>	

# Expenditure Assumptions: Other Benefits

Historical Trend		
FY	Actual	% Change
2019	\$3,578,363	N/A
2020	\$3,618,950	1.1%
2021	\$3,710,338	2.5%
2022	\$3,679,378	-0.8%
2023	\$3,829,826	4.1%
2024	\$4,274,670	11.6%
2025	\$4,948,141	15.8%
2026 Budget	\$6,265,770	N/A
Average Change		5.7%

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## Assessment:

- Average budget-to-actual variance of 11.4% (under budget)
- Below-average cost adjustments during and after the pandemic
- Recent “catch-up” in premiums
- Expect normalized, higher growth going forward

## Relevant Data Sources for Projecting Estimates:

- CalPERS/Public Employees’ Medical and Hospital Care Act
- Historical premium cost (Town)
- Industry guidance – PWC group plan data, national premiums

**Raftelis Preliminary Assumption:**
**6.6%**

- Based on historical experience and anticipated growth in healthcare cost driven by aging population
- Reflects average healthcare industry cost indicators over the past five years

# Expenditure Assumptions: Nonpersonnel Expenditures

Historical Trend		
FY	Actual	% Change
2019	\$8,667,689	N/A
2020	\$8,755,297	1.0%
2021	\$8,698,384	-0.7%
2022	\$10,869,595	25.0%
2023	\$9,786,916	-10.0%
2024	\$11,773,697	20.3%
2025	\$11,236,028	-4.6%
2026 Budget	\$10,839,863	N/A
Page 31	Average Change	5.2%

## Assessment:

- Dependent on contractual arrangements
- Variability by department or expenditure type

## Relevant Data Sources for Projecting Estimates:

- Expenditure history by department (Town)
- Expenditure history by key drivers (Town)
- Assumed no change to base budget for Town grants

## Raftelis Preliminary Assumption:

- See details on next slide:
  - ✓ Materials and Supplies
  - ✓ Town Grants
  - ✓ Utilities
  - ✓ Purchased Services
  - ✓ Other (including retiree healthcare and leave payouts)

# Non-Personnel Expenditure Assumptions

Category	Budget-to-Actual Variance	Assumption	Growth	Comments
Materials and Supplies	5.0% (under)	Historical trends by department, weighted based on percentage of total General Fund cost	10.1% Weighted Average	Driven by Police, comprises almost 50% of total cost
Town Grants	N/A	Assumes \$155k base budget going forward	0.0%	Return to normal investment post-pandemic
Utilities	0.8% (over)	Historical trends by utility type, looks at percentage of total costs	8.0% Weighted Average	Driven by water (50% of total) average cost increase of 12% and Energy (30% of total) average cost increase of 9.4%
Purchased Services	10.2% (under)	Historical trends by department, weighted based on percentage of total General Fund cost	9.8% Weighted Average	Driven by legal costs, Police, and Community Development contracts
Other Expenses	9.9% (over)	Split between retiree medical (OPEB pay go) and all other	8.2% for Retiree Medical 5.0% for all other	Retiree medical comprises about 44% of total costs for this category



# Expenditure Assumptions: Internal Service

Historical Trend		
FY	Actual*	% Change
2019	\$3,170,513	N/A
2020	\$3,209,983	1.2%
2021	\$3,382,215	5.4%
2022	\$3,680,108	8.8%
2023	\$3,695,442	0.4%
2024	\$4,398,816	19.0%
2025	\$5,787,118	31.6%
2026 Budget	\$4,894,461	N/A
Page 33	Range Change	11.1%

## Assessment:

- Deferred maintenance needs used to adjust General Fund impact for budget balancing
- Growing insurance cost, workers compensation claims activity relates to staffing levels
- Pace of technology investment, replacement, and overall maintenance cost

## Relevant Data Sources for Projecting Estimates:

- IT equipment/application and vehicle replacement plans (Town)
- Workers comp and insurance claims activity (Broker/JPA)
- Ongoing facility maintenance needs with inflation

Raftelis Preliminary Assumptions:

- See details on next slide

\*Reflects charges for services, which may be above or below the actual cost of services, depending on the use of fund balance or other sources.

# Internal Service Fund Assumptions

Internal Service Fund	Budget-to-Actual Variance	Assumption	Growth	Comments
Liability	11.1% (under)	Assumes minimum fund balance of 5% of expenditures, growth in operating cost based on historical trends.	7.0%	Average cost of \$375k from 2019 to 2023, spiked to \$660k and then \$1.3m in past two years. Town negotiated a new JPA with some savings.
Workers Compensation	9.2% (under)	Assumes minimum fund balance of 20% of expenditures, growth in operating cost based on historical trends.	2.0%	Does not assume a significant jump in claims relative to prior years
Facility Maintenance	0.0%	Assumes minimum fund balance of 50% of expenditures, growing based on anticipated maintenance needs provided by Public Works.	15.0%	Historical growth to support ongoing maintenance has been 3.2%, some deferred maintenance is factored in based on DPW schedule provided.
IT	9.2% (over)	Assumes minimum fund balance of 100% of expenditures, growing based on anticipated replacement needs.	3.0%	Assumes 3.0% inflationary cost for ongoing maintenance. 2026 base is adjusted higher to reflect actual spend patterns
Equipment	0.4% (under)	Assumes minimum fund balance of 100% of expenditures, growing based on anticipated replacement needs.	3.0%	Assumes 3.0% inflationary cost for ongoing repair and maintenance, along with annual replacement needs

# Preliminary Outlook



# Preliminary Outlook

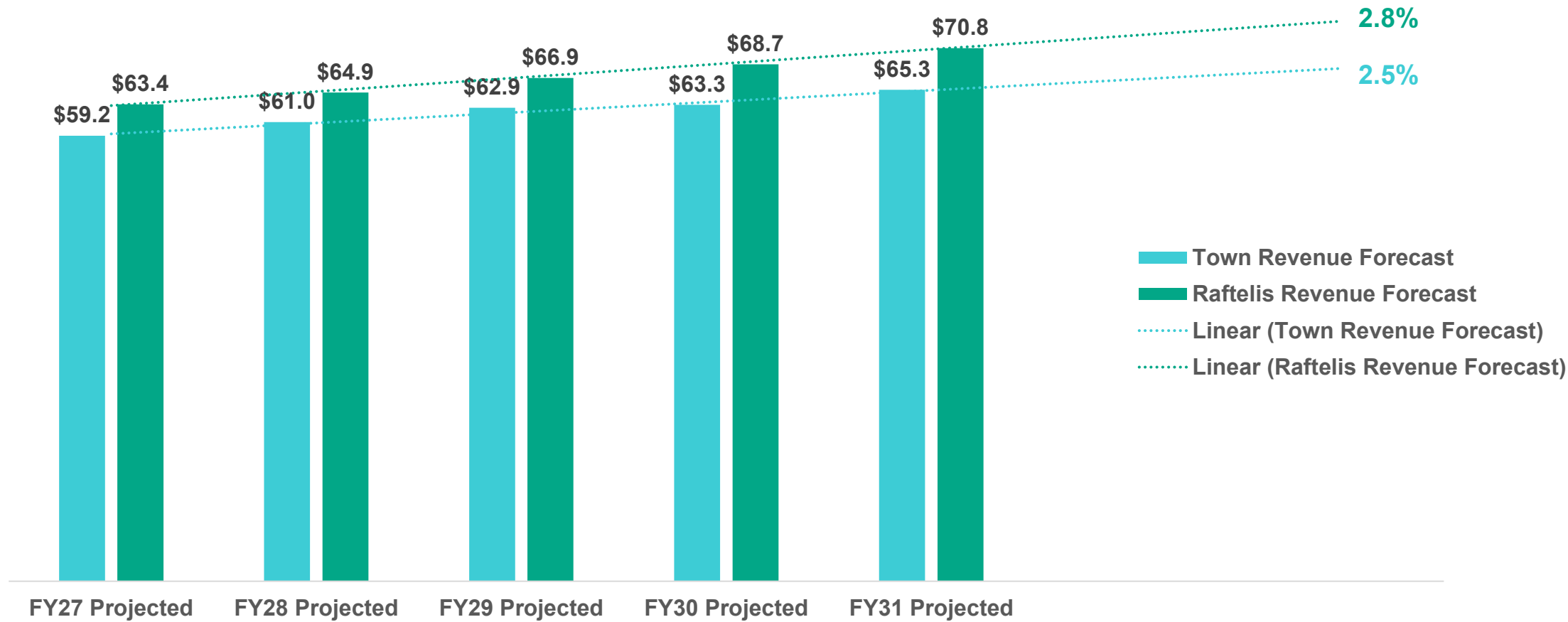
## Key Takeaways

- Raftelis assumptions and baseline model validates Town's projected structural deficit
- Service level adjustments or new ongoing revenue will be needed to balance the budget
- Prolonged deferred capital investment will increase financial risk in future years

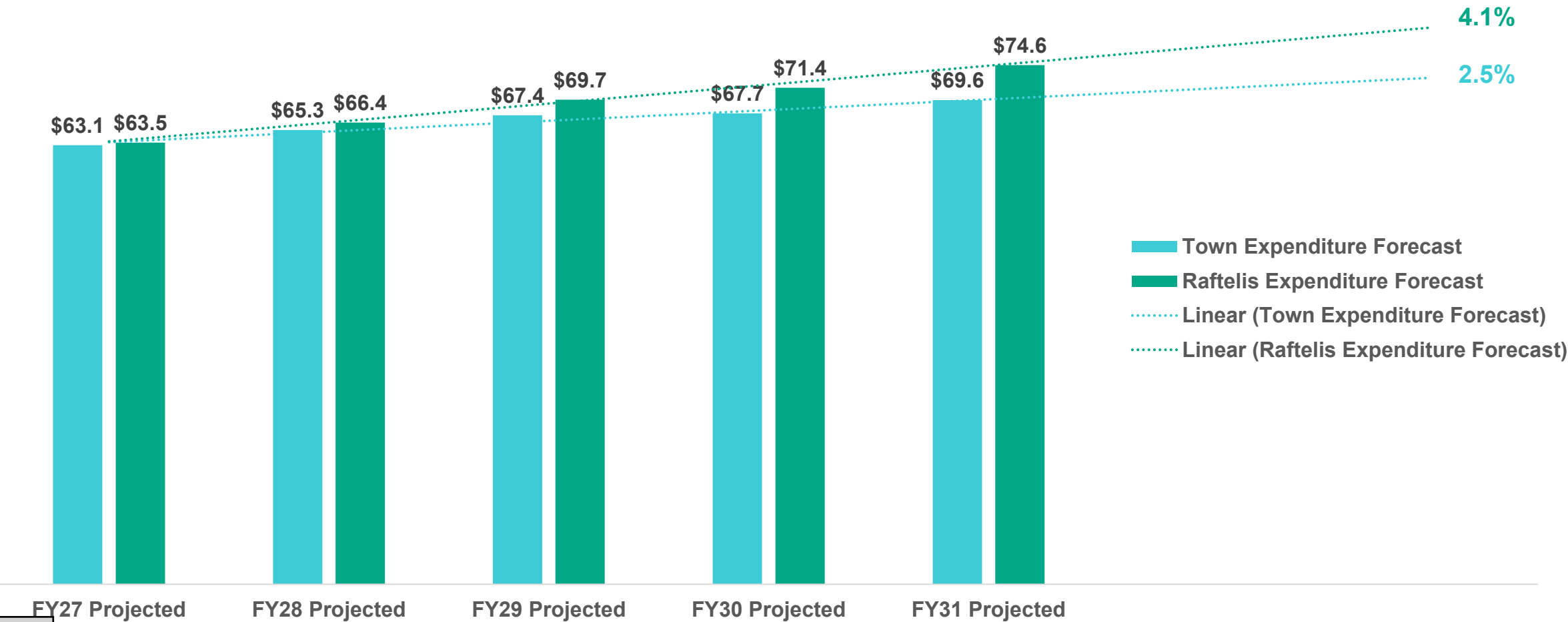
## Excluded from the Outlook

- Ongoing capital investment needs to maintain facilities
- Additional infrastructure investments to support new development
- Changes in underlying assumptions or performance of pension plans
- Technology investments beyond what IT Fund balance can absorb

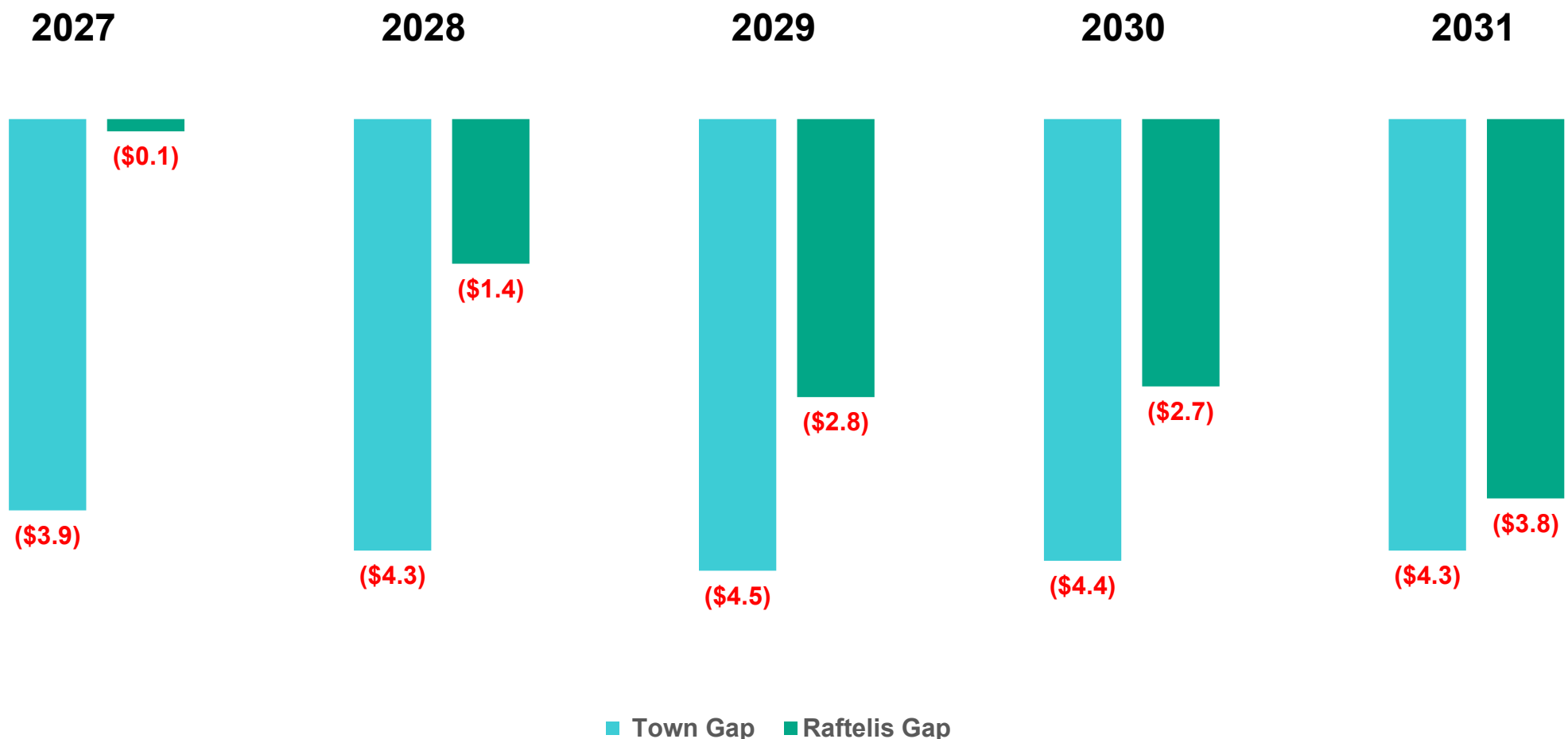
# Raftelis Prelim Outlook - Revenue



# Raftelis Prelim Outlook - Expenditures



# Prelim Structural Deficit



# Next Steps





# Next Steps

- 1 Present Assumptions and Projections to Town Council**  
February 3
- 2 Develop scenarios for comparison**  
March
- 3 Prepare Draft/Final Report**  
March/April