



**TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA
MAY 11, 2026
110 EAST MAIN STREET
TOWN COUNCIL CHAMBERS
5:30 PM**

Ashby Monk, Chair
Adam Fischer, Vice Chair
Phil Koen, Commissioner
Linda Reiners, Commissioner
Joseph Rodgers, Commissioner
Maria Ristow, Vice Mayor
Matthew Hudes, Council Member

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=rHVGVpPbwjNaaM6U6ZB5AbaZUF1ToV9.1>

Enter passcode: 998589

CALL MEETING TO ORDER

ROLL CALL

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

- [1.](#) Approve the Minutes of the April 13, 2026, Finance Commission Regular Meeting
- [2.](#) Approve the Minutes of the April 27, 2026, Finance Commission Special Meeting
- [3.](#) Approve the Minutes of the May 4, 2026, Finance Commission Special Meeting
- [4.](#) Receive the Monthly Financial and Investment Report for March 2026

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 Commission. During special meetings, members of the public are welcome to address the Commission only on items listed on the agenda. Town resources may not be used to facilitate audio or visual presentations. 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 (Each speaker is limited to no more than three (3) minutes or such time as authorized by the Chair.)

5. Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024
6. Continue to Review, Discuss, and Make Recommendations on the Preliminary Proposed FY 2026-27 Operating and Capital Budget

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. 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->

[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:

-3:00 p.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
MINUTES**

MEETING DATE: 5/11/2026

Item 1.

ITEM NO: 1

**Draft Minutes of the Finance Commission Regular Meeting
April 13, 2026**

The Finance Commission of the Town of Los Gatos conducted a regular meeting in person and via teleconference.

THE MEETING WAS CALLED TO ORDER AT 5:31 P.M.

ROLL CALL

Present: Chair Ashby Monk, Vice Chair Adam Fischer, Commissioner Joe Rodgers, Commissioner Phil Koen, Commissioner Linda Reiners, and Council Member Matthew Hudes (arrived at approximately 5:40 p.m.)

Absent: Vice Mayor Maria Ristow

Town Staff Present: Town Manager, Chris Constantin; Administrative Services Director, Kristina Alfaro; and Finance and Accounting Manager, Eric Lemon.

CONSENT ITEMS

1. Approve the Minutes of the March 9, 2026, Finance Commission Regular Meeting
2. Receive the Monthly Financial and Investment Report for February 2026
3. Receive FY 2024-25 Federal Single Audit Report

Item three was pulled for discussion.

The following individuals spoke on the consent items:

1. Member of the Public (Item 1)

MOTION: Motion by Commissioner Reiners to approve items one and two on consent.
Seconded by Commissioner Koen.

VOTE: Motion passed unanimously.

ITEM PULLED FROM CONSENT

2. Receive FY 2024-25 Federal Single Audit Report

The Commission discussed the item and asked questions.

Staff addressed the Commissioners' questions.

No one spoke on this item.

MOTION: Motion by Commissioner Keon to Receive FY 2024-25 Federal Single Audit Report. **Seconded by Vice Chair Fischer.**

VOTE: Motion passed 4-0-1. Commissioner Rodgers abstained.

VERBAL COMMUNICATIONS

The following individual spoke during verbal communications:

1. Member of the public

OTHER BUSINESS

4. Receive the Fiscal Condition Assessment and Fiscal Impact Analysis for Proposed and Planned Growth Memorandums and Provide Feedback for the Town Council.

Administrative Services Director, Kristina Alfaro, opened the item and introduced Mark Northcross, Principal NHA Advisors, to present the item.

The Commission discussed the item, asked questions and provided feedback.

Staff and the consultants addressed the Commissioner’s questions

The following individuals spoke on this item:

1. Lee Fagot
2. Member of the public

There was no action taken on this item.

ADJOURNMENT:

The meeting adjourned at approximately 7:32 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the April 13, 2026, regular meeting as approved by the Finance Commission.

Wendy Wood, Town Clerk



**TOWN OF LOS GATOS
FINANCE COMMISSION
MINUTES**

MEETING DATE: 5/11/2026

Item 2.

ITEM NO: 2

**Draft Minutes of the Finance Commission Regular Meeting
April 27, 2026**

The Finance Commission of the Town of Los Gatos conducted a special meeting in person and via teleconference.

THE MEETING WAS CALLED TO ORDER AT 5:30 P.M.

ROLL CALL

Present: Vice Chair Adam Fischer, Commissioner Joe Rodgers, Commissioner Linda Reiners, and Vice Mayor Maria Ristow

Absent: Chair Ashby Monk, Commissioner Phil Koen, and Council Member Matthew Hudes

Town Staff Present: Town Manager, Chris Constantin; Administrative Services Director, Kristina Alfaro; Parks and Public Works Director, Nicolle Burnham; and Finance and Accounting Manager, Eric Lemon.

OTHER BUSINESS

1. Review and Discuss the Preliminary Proposed FY 2026-27 Operating and Capital Summary Budget, and Provide Preliminary Comments and Recommendations Regarding the Proposed Budget.

Administrative Services Director, Kristina Alfaro, gave a presentation on the item.

The Commission discussed the item, asked questions, and provided feedback.

Staff and the consultants addressed the Commissioner's questions

The following individual spoke on this item:

1. Member of the public

There was no action taken on this item.

ADJOURNMENT:

The meeting adjourned at approximately 7:25 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the April 27, 2026, special meeting as approved by the Finance Commission.

Wendy Wood, Town Clerk



**TOWN OF LOS GATOS
FINANCE COMMISSION
MINUTES**

MEETING DATE: 5/11/2026

Item 3.

ITEM NO: 3

**Draft Minutes of the Finance Commission Regular Meeting
May 4, 2026**

The Finance Commission of the Town of Los Gatos conducted a special meeting in person and via teleconference.

THE MEETING WAS CALLED TO ORDER AT 5:30 P.M.

ROLL CALL

Present: Chair Ashby Monk, Vice Chair Adam Fischer, Commissioner Phil Koen, Commissioner Joe Rodgers, Commissioner Linda Reiners, and Council Member Matthew Hudes, and Vice Mayor Maria Ristow

Absent: None

Town Staff Present: Town Manager, Chris Constantin; Administrative Services Director, Kristina Alfaro; Parks and Public Works Director, Nicolle Burnham, and Finance and Accounting Manager, Eric Lemon

OTHER BUSINESS

1. Continue Review and Discuss the Preliminary Proposed FY 2026-27 Operating and Capital Summary Budget, and Provide Preliminary Comments and Recommendations Regarding the Proposed Budget.

Administrative Services Director, Kristina Alfaro, gave a presentation on the item.

The Commission discussed the item, asked questions, and provided feedback.

Staff and the consultants addressed the Commissioner's questions

The following individual spoke on this item:

1. Member of the public

There was no action taken on this item.

ADJOURNMENT:

The meeting adjourned at approximately 7:35 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the May 4, 2026, special meeting as approved by the Finance Commission.

Wendy Wood, Town Clerk



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 5/11/2026

ITEM NO: 4

Item 4.

DATE: May 11, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Monthly Financial and Investment Report for March 2026

RECOMMENDATION: Receive the Monthly Financial and Investment Reports for March 2026.

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 Administrative Services Director assumes the Town Treasurer role. Attachment 1 contains the March 2026 monthly Financial and Investment Report, which fulfills this requirement.

The March 2026 Monthly Financial and Investment Report will be presented to the Town Council at its May 19, 2026, regular meeting.

DISCUSSION:

The March 2026 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 and 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 March 31, 2026, fund balance report. In the case that the differences are extraordinary and unanticipated, we will ensure we present more information to explain the differences.

PREPARED BY: Eric Lemon
Finance and Accounting Manager

Reviewed by: Town Manager, Town Attorney, and Administrative Services Director

The difference between the March 31 and February 28 estimated fund balance is due to normal day-to-day fluctuations in revenues and expenditures.

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, Ending Fund Balance = Cash + Assets - Liabilities, which represents the actual amount of funds available.

Reconciling Cash to Fund Balance - March 31, 2026

Total Cash	\$	79,742,122
Plus: Assets	\$	13,676,139
Less: Liabilities	\$	(24,329,204)
Estimated Fund Balance	\$	69,089,057

As of March 31, 2026, the Town’s financial position (Cash Plus Other Assets \$93.42M, Liabilities \$24.33M, and Fund Equity \$69.09M) remains strong, and the Town has sufficient funds to meet the cash demands for the next six months.

As of March 31, 2026, the Town’s weighted portfolio yield for investments under management was 4.21%, which was 38 basis points above the Local Agency Investment Fund (LAIF) yield of 3.83% for the same reporting period. Currently, the LAIF portfolio’s weighted average maturity (WAM) is 260 days versus the Town’s longer WAM of 578 days. The Town’s assets under management reflect the Town’s selection of the 1-3 year benchmark investment strategy through the Town’s investment advisor to lock in higher yields at the top of the interest rate cycle. The longer maturities are 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 4.21% at the close of March was 1 basis point higher when compared to the prior month’s return of 4.20% reported as of February 28, 2026.

Since March 2025, LAIF yields decreased from 431 basis points (4.31%) to 383 basis points (3.83%) through the end of March 2026. The State LAIF pool typically lags the market when current market yields are either increasing or decreasing.

The Federal Open Market Committee implemented three rate cuts in 2025. The first, on September 17, reduced the federal funds target range by 25 basis points to 4.00%–4.25% amid slower economic growth in the first half of the year and emerging signs of labor-market softening. A second 25-basis-point cut on October 29 brought the range down to 3.75%–4.00% as labor-market weakness and broader economic uncertainty persisted. At its December 10 meeting, the Committee approved a final 25-basis-point reduction to 3.50%–3.75%, reflecting

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SUBJECT: Monthly Financial and Investment Report for March 2026

DATE: May 11, 2026

ongoing concerns about the economic outlook. These adjustments align with the FOMC's objective to promote maximum employment and achieve a year-over-year inflation target of 2%.

Labor market conditions continued to loosen. Nonfarm payrolls declined by 92,000 in February. Initial jobless claims fluctuated between 205,000 and 213,000. Continuing claims reached 1.819m, close to a two-year low.

The Town's investments are in compliance with the Town's Investment Policy dated March 18, 2025, and are also in compliance with the requirements of Section 53600 et 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.

Attachments:

1. Financial and Investment Report (March 2026)

**Town of Los Gatos
Summary Investment Information
March 31, 2026**

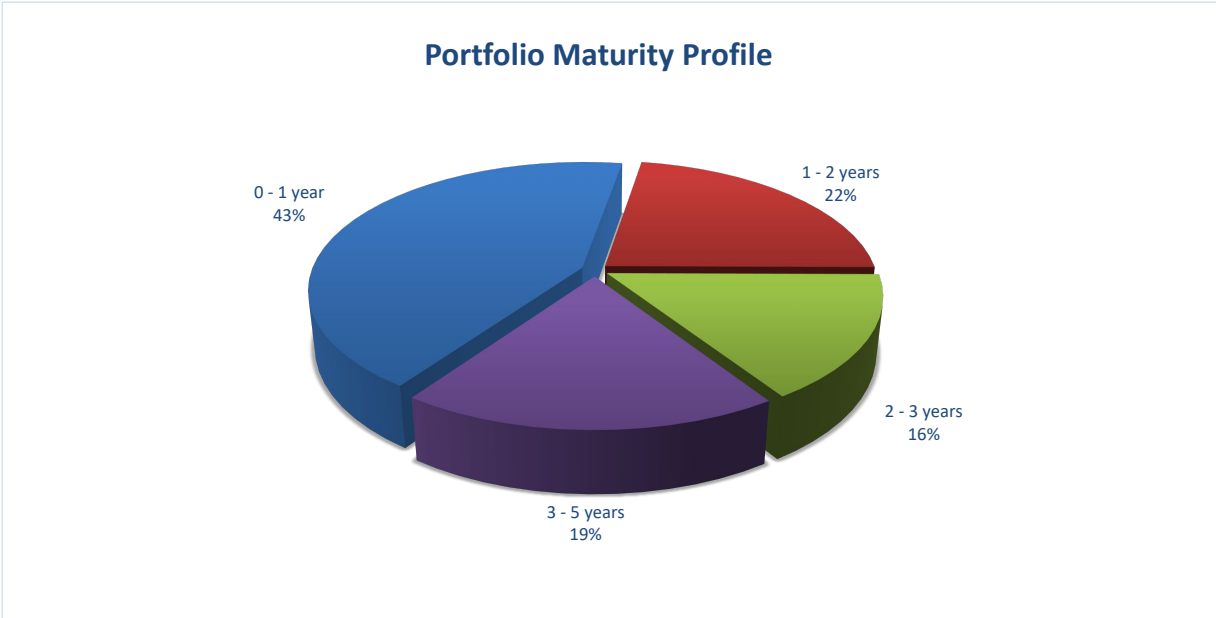
Weighted Average YTM Portfolio Yield on Investments under Management **4.21%**

Weighted Average Maturity (days) **578**

	This Month	Last Month	One year ago
Portfolio Allocation & Treasurer's Cash Balances	\$79,742,122	\$77,392,752	\$72,922,188
Managed Investments	\$53,542,255		
Local Agency Investment Fund	\$17,605,206		
Reconciled Demand Deposit Balances	\$8,594,661		
Portfolio Allocation & Treasurer's Cash Balances	\$79,742,122		

Benchmarks/ References:

Town's Average Yield	4.21%	4.20%	4.42%
LAIF Yield for month	3.83%	3.87%	4.31%
3 mo. Treasury	4.29%	3.66%	4.29%
6 mo. Treasury	4.22%	3.62%	4.22%
2 yr. Treasury	3.88%	3.37%	3.88%
5 yr. Treasury	3.95%	3.50%	3.95%
10 Yr. Treasury	4.21%	3.94%	4.21%

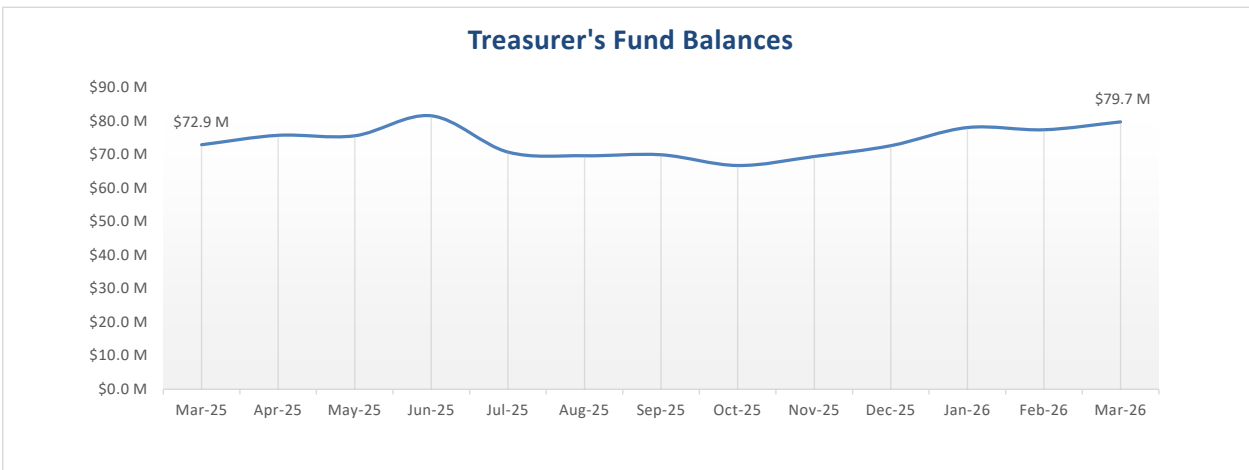
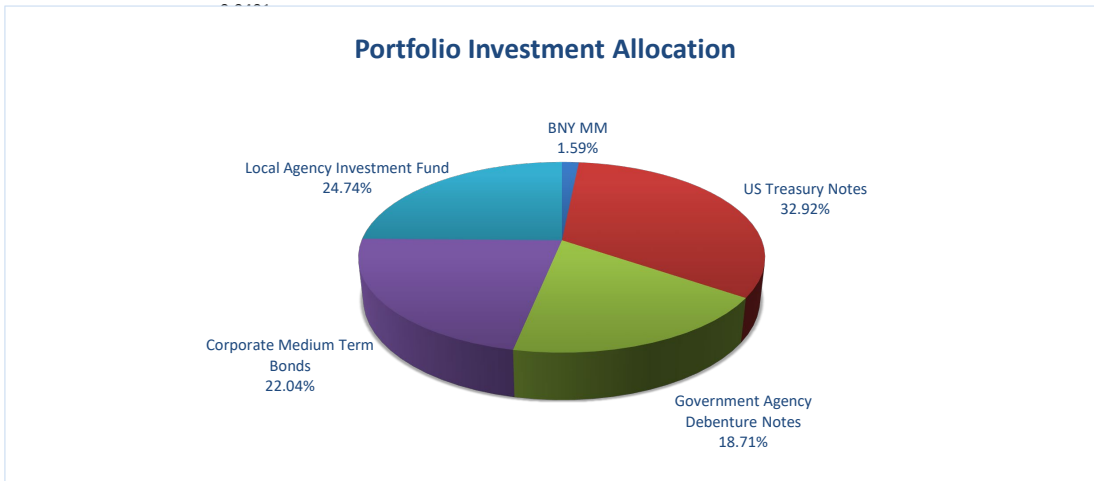


Compliance: The Town's investments are in compliance with the Town's investment policy dated March 18, 2025, and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for the next six months.

**Town of Los Gatos
Portfolio Allocation & Treasurer's Cash Balances
March 31, 2026**

	<u>Month</u>	<u>YTD</u>
Cash & Investment Balances - Beginning of Month/Period	\$ 77,392,751.51	\$ 81,558,113.19
Receipts	14,292,075.30	68,662,235.14
Disbursements	(11,942,705.26)	(70,478,226.78)
Cash & Investment Balances - End of Month/Period	<u>\$79,742,121.55</u>	<u>\$79,742,121.55</u>

Portfolio Allocation	Amount	% of Portfolio	Max. % or \$ Allowed per State Law or Policy
BNY MM	\$1,128,226.86	1.59%	20% of Town Portfolio
US Treasury Notes	\$23,416,704.94	32.92%	No Max. on US Treasuries
Government Agency Debenture Notes	\$13,313,715.31	18.71%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$15,683,607.80	22.04%	30% of Town Portfolio
Local Agency Investment Fund	\$17,605,206.08	24.74%	\$75 M per State Law
Subtotal - Investments	71,147,460.99	100.00%	
Reconciled Demand Deposit Balances	<u>8,594,660.56</u>		
Total Portfolio Allocation & Treasurer's Cash Balances	<u>\$79,742,121.55</u>		



**Town of Los Gatos
Non-Treasury Restricted Fund Balances
March 31, 2026**

	Beginning Balance	March 2026 Deposits Realized Gain/Adj.	March 2026 Interest/ Unrealized Gains (Losses)/ Gains (Losses)	March 2026 Withdrawals / Fees	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Ser A Reserve Fund	\$ 700,714.80	\$ -	\$ 1,711.33	\$ -	\$ 702,426.13	Note 1
Cert. of Participation 2010 Ser Lease Payment Fund	77.67	-	7.30	-	84.97	Note 2
Cert. of Participation 2002 Ser A Lease Payment Fund	137.02	-	7.79	-	144.81	Note 1
Cert. of Participation 2010 Ser Reserve Fund	1,311,425.11	-	3,573.13	-	1,314,998.24	Note 2
Total Restricted Funds:	<u>\$ 2,012,354.60</u>	<u>\$ -</u>	<u>\$ 5,299.55</u>	<u>\$ -</u>	<u>\$ 2,017,654.15</u>	
 CEPPT IRS Section 115 Trust	 4,030,518.70	 -	 (144,002.19)	 766.79	 \$ 3,885,749.72	 Note 3
 Grand Total COP's and CEPPT Trust	 <u>\$ 6,042,873.30</u>	 <u>\$ -</u>	 <u>\$ (138,702.64)</u>	 <u>\$ 766.79</u>	 <u>\$ 5,903,403.87</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
March 31, 2026

July 2025	\$	238,713.97
August 2025	\$	238,367.28
September 2025	\$	259,685.13
October 2025	\$	228,769.00
November 2025	\$	220,968.79
December 2025	\$	234,197.60
January 2026	\$	228,526.08
February 2026	\$	205,910.96
March 2026	\$	238,556.51
April 2026	\$	-
May 2026	\$	-
June 2026	\$	-
	\$	<u>2,093,695.32</u>

Town of Los Gatos
Investment Schedule
March 31, 2026

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	071833DB3	Corporate Bond	2.90%	12/30/2022	1,300,000.00	1,281,591.00	(18,409.00)	1,281,124.00	52,533.00		6/21/2027	4.19%	\$ 121,687.22	\$ 135,426.07	\$ 40,202.32	447
Home Depot	437076BM3	Corporate Bond	3.00%	8/4/2022	1,000,000.00	991,960.00	(8,040.00)	1,000,000.00	8,040.00		4/1/2026	3.04%	\$ 94,750.00	\$ 93,590.54	\$ 24,169.47	1
FFCB	3133ENSV8	Gov. Agency Debenture	4.13%	1/17/2023	236,000.00	239,174.20	3,174.20	236,547.52	(2,626.68)		1/1/2027	3.76%	\$ 29,042.75	\$ 21,918.24	\$ 6,101.16	286
JP Morgan Chase	46625HRS1	Corporate Bond	3.20%	9/23/2022	500,000.00	474,660.00	(25,340.00)	498,910.00	24,250.00		6/15/2026	4.70%	\$ 51,644.44	\$ 63,141.28	\$ 17,112.47	765
FHLB	3130AQF65	Gov. Agency Debenture	1.25%	11/30/2022	1,300,000.00	1,160,559.40	(139,440.60)	1,276,912.00	116,352.60		12/21/2026	4.15%	\$ 49,697.92	\$ 130,709.25	\$ 37,979.15	26
FHLB	3130AJP19	Gov. Agency Debenture	1.00%	1/17/2023	1,000,000.00	907,010.00	(92,990.00)	992,300.00	85,290.00		10/28/2026	4.17%	\$ 28,354.17	\$ 84,829.28	\$ 25,970.08	211
FFCB	3133ENSN6	Gov. Agency Debenture	4.00%	2/8/2023	1,700,000.00	1,706,732.00	6,732.00	1,704,352.00	(2,380.00)		1/6/2028	3.91%	\$ 197,955.56	\$ 159,363.33	\$ 50,017.81	646
American Honda	02665WE9D	Corporate Bond	4.70%	5/11/2023	600,000.00	608,856.00	8,856.00	(7,800.00)	(7,800.00)		1/12/2028	4.34%	\$ 75,278.33	\$ 56,288.41	\$ 19,747.79	652
US Treasury	91282CEF4	US Treasury Note	2.50%	6/9/2023	1,500,000.00	1,416,626.12	(83,373.88)	1,481,940.00	65,313.88		3/31/2027	4.09%	\$ 105,327.87	\$ 122,333.72	\$ 44,573.72	365
Colgate-Palmolive	194162AR4	Corporate Bond	4.60%	7/14/2023	500,000.00	504,655.00	4,655.00	506,655.00	2,000.00		2/1/2028	4.37%	\$ 60,502.79	\$ 43,173.83	\$ 16,498.78	672
FFCB	3133EPQC2	Gov. Agency Debenture	4.63%	7/17/2023	500,000.00	501,957.50	1,957.50	501,185.00	(772.50)		7/17/2026	4.48%	\$ 57,812.50	\$ 43,961.07	\$ 16,870.21	108
FFCB	3133EPBM6	Gov. Agency Debenture	4.13%	7/14/2023	600,000.00	596,220.00	(3,780.00)	602,964.00	6,744.00		8/23/2027	4.29%	\$ 64,556.25	\$ 50,424.13	\$ 19,269.47	510
PNC Bank	69353RFJ2	Corporate Bond	3.25%	7/25/2023	1,000,000.00	921,490.00	(78,510.00)	983,940.00	62,450.00		12/23/2027	5.23%	\$ 80,979.17	\$ 97,247.67	\$ 37,742.01	632
US Treasury	91282CFU0	US Treasury Note	4.13%	7/31/2023	1,300,000.00	1,290,660.00	(9,339.40)	1,305,382.00	14,721.40		10/31/2027	4.31%	\$ 120,666.25	\$ 107,052.11	\$ 41,903.26	579
Toyota Motor Credit	89236TKL8	Corporate Bond	5.45%	8/25/2023	1,600,000.00	1,617,168.00	17,168.00	1,631,824.00	14,656.00		11/10/2027	5.16%	\$ 192,566.67	\$ 153,725.55	\$ 62,401.19	589
US Treasury	912810FE3	US Treasury Note	5.50%	10/3/2023	1,200,000.00	1,238,207.14	38,207.14	1,245,708.00	7,500.86		8/15/2028	4.76%	\$ 156,211.96	\$ 101,335.84	\$ 43,657.27	868
FFCB	3133EPLW3	Gov. Agency Debenture	4.75%	10/13/2023	1,000,000.00	994,338.00	(5,662.00)	1,004,040.00	9,702.00		9/1/2026	4.96%	\$ 113,208.33	\$ 84,828.57	\$ 37,129.44	154
US Treasury	91282CEW7	US Treasury Note	3.25%	10/16/2023	1,000,000.00	950,039.06	(49,960.94)	992,970.00	42,930.94		6/30/2027	4.73%	\$ 71,711.96	\$ 78,477.53	\$ 34,515.00	456
US Treasury	91282CEW7	US Treasury Note	2.75%	10/31/2023	1,300,000.00	1,214,336.39	(85,663.61)	1,286,051.00	71,714.61		4/30/2027	4.82%	\$ 71,500.00	\$ 100,336.49	\$ 45,217.43	395
US Treasury	91282CCH2	US Treasury Note	1.25%	12/21/2023	900,000.00	798,647.55	(101,352.45)	850,572.00	51,924.45		6/30/2028	3.99%	\$ 22,805.71	\$ 51,319.84	\$ 25,245.31	822
FNMA	3135G0Q22	Gov. Agency Debenture	1.88%	12/21/2023	900,000.00	845,676.00	(54,324.00)	842,188.00	46,512.00		9/24/2026	4.22%	\$ 38,109.38	\$ 55,770.03	\$ 27,434.45	177
US Treasury	91282CFB2	US Treasury Note	2.75%	1/2/2024	1,000,000.00	960,354.91	(39,645.09)	985,860.00	25,505.09		7/31/2027	3.95%	\$ 57,167.12	\$ 57,605.73	\$ 28,961.41	487
US Treasury	91282CEH4	US Treasury Note	3.63%	1/17/2024	1,800,000.00	1,775,185.72	(24,814.28)	1,792,764.00	17,578.28		5/31/2028	3.97%	\$ 121,942.63	\$ 102,986.91	\$ 53,242.79	792
JP Morgan Chase	46647PDG8	Corporate Bond	4.85%	2/1/2024	1,400,000.00	1,396,528.00	(3,472.00)	1,406,958.00	10,430.00		7/25/2027	4.93%	\$ 134,696.10	\$ 97,231.80	\$ 51,731.09	478
US Bancorp	91159HJF8	Corporate Bond	4.55%	2/5/2024	1,000,000.00	989,200.00	(10,800.00)	1,000,810.00	11,610.00		7/22/2027	4.89%	\$ 89,317.67	\$ 68,041.60	\$ 36,484.14	481
Treasury	91282CHB0	US Treasury Note	3.63%	2/23/2024	1,175,000.00	1,151,962.92	(23,037.08)	1,174,753.25	22,790.33		5/15/2026	4.56%	\$ 73,485.92	\$ 71,517.53	\$ 39,748.08	45
FFCB	3133EP5U5	Gov. Agency Debenture	4.13%	3/28/2024	1,700,000.00	1,687,981.00	(12,019.00)	1,711,560.00	23,579.00		3/20/2029	4.28%	\$ 138,691.67	\$ 91,219.09	\$ 54,453.23	1085
US Treasury	91282SM8	US Treasury Note	3.13%	4/30/2024	1,200,000.00	1,123,832.14	(76,167.86)	1,179,000.00	55,167.86		11/15/2028	4.69%	\$ 57,795.34	\$ 63,813.82	\$ 40,722.97	960
Cisco Systems	17275RBR2	Corporate Bond	4.85%	5/15/2024	1,000,000.00	999,130.00	(870.00)	1,018,380.00	19,250.00		1/26/2029	4.87%	\$ 86,356.94	\$ 54,820.58	\$ 36,547.05	1032
Home Depot	437076CW0	Corporate Bond	4.90%	5/17/2024	1,000,000.00	1,001,790.00	1,790.00	1,018,890.00	17,100.00		4/15/2029	4.86%	\$ 69,144.44	\$ 54,498.76	\$ 36,510.17	1111
Treasury	91282CJH3	US Treasury Note	3.75%	9/31/2024	1,200,000.00	1,154,620.02	(45,379.98)	1,197,516.00	42,886.98		12/31/2028	4.68%	\$ 71,208.79	\$ 59,398.06	\$ 41,202.70	1006
FHLB	3130BIBT3	Gov. Agency Debenture	4.88%	7/2/2024	1,150,000.00	1,150,966.00	966.00	1,152,369.00	1,403.00		6/12/2026	4.82%	\$ 75,372.92	\$ 55,261.42	\$ 41,712.48	733
Citibank	17325FBK3	Corporate Bond	4.84%	8/15/2024	1,250,000.00	1,263,062.50	13,062.50	1,266,512.50	3,450.00		7/6/2029	4.60%	\$ 89,200.62	\$ 50,520.38	\$ 43,993.68	1193
FNMA	3135G0Y5Y	Gov. Agency Debenture	0.75%	9/10/2024	1,100,000.00	1,010,724.00	(89,276.00)	1,050,467.00	39,743.00		10/8/2027	3.56%	\$ 8,891.67	\$ 29,915.45	\$ 27,975.54	556
US Treasury	91282CFL0	US Treasury Note	3.88%	12/3/2024	1,100,000.00	1,088,144.31	(11,855.69)	1,100,176.00	12,031.69		9/30/2029	4.12%	\$ 56,442.99	\$ 25,813.46	\$ 33,841.57	1279
FHLB	3130AUT2	Gov. Agency Debenture	4.50%	2/12/2025	505,000.00	505,253.21	3,253.21	515,594.90	7,341.69		12/14/2029	4.35%	\$ 19,063.75	\$ 8,337.70	\$ 16,554.57	1354
FFCB	3133ER5X5	Gov. Agency Debenture	3.88%	3/12/2025	1,000,000.00	998,480.00	(1,520.00)	999,650.00	1,170.00		3/7/2028	3.93%	\$ 38,211.81	\$ 11,831.34	\$ 29,470.78	707
Treasury	91282CJF9	US Treasury Note	4.88%	3/31/2025	1,100,000.00	1,130,167.75	30,167.75	1,127,973.00	(2,194.75)		10/31/2028	4.04%	\$ 31,256.56	\$ 11,273.90	\$ 39,458.58	945
State Street Corp	857477CD3	Corporate Bond	5.27%	4/30/2025	800,000.00	811,184.00	11,184.00	802,480.00	(8,704.00)		8/3/2026	4.04%	\$ 31,983.47	\$ 5,565.50	\$ 24,999.11	125
Freddie Mac	3134HAW33	Gov. Agency Debenture	4.75%	4/30/2025	1,000,000.00	1,005,644.00	5,644.00	999,230.00	(6,414.00)		12/18/2029	4.23%	\$ 30,743.07	\$ 7,735.00	\$ 34,744.09	1358
US Treasury	91282CNG2	US Treasury Note	4.00%	6/30/2025	660,000.00	665,184.24	5,184.24	662,323.20	(2,861.04)		5/31/2030	3.82%	\$ -	\$ -	\$ 19,027.17	1522
US Treasury	91282CMG3	US Treasury Note	4.25%	8/4/2025	825,000.00	842,308.43	17,308.43	835,444.50	(6,863.93)		1/31/2030	3.74%	\$ 17,150.14	\$ -	\$ 20,437.88	1402
US Treasury	91282CM46	US Treasury Note	4.13%	8/25/2025	1,200,000.00	1,218,847.77	18,847.77	1,209,984.00	(8,863.77)		11/30/2029	3.72%	\$ -	\$ -	\$ 26,927.15	1340
US Treasury	91282CH85	US Treasury Note	4.00%	9/23/2025	950,000.00	967,038.38	17,038.38	953,078.00	(3,958.38)		7/31/2030	3.59%	\$ 13,423.92	\$ -	\$ 17,859.63	1583
US Treasury	91282CG08	US Treasury Note	4.00%	10/3/2025	1,000,000.00	1,013,362.72	13,362.72	1,003,830.00	(9,532.72)		2/28/2030	3.67%	\$ 16,353.59	\$ -	\$ 18,129.85	1430
State Street Corp	857477DB6	Corporate Bond	4.83%	11/10/2025	580,000.00	596,535.80	16,535.80	589,082.80	(7,453.00)	1,246.09	4/24/2030	4.13%	\$ (1,246.09)	\$ -	\$ 9,396.89	1485
US Treasury	91282CKA8	US Treasury Note	4.13%	12/17/2025	1,150,000.00	1,157,775.34	7,775.34	1,153,599.50	(4,175.84)		2/15/2027	3.52%	\$ 7,734.37	\$ -	\$ 11,613.77	321
US Treasury	91282CHW4	US Treasury Note	4.13%	12/17/2025	1,150,000.00	1,170,308.54	20,308.54	1,158,935.50	(11,373.04)		8/31/2030	3.71%	\$ 9,566.13	\$ -	\$ 12,287.05	1614
US Treasury	91282CHZ7	US Treasury Note	4.63%	1/13/2026	1,050,000.00	1,089,087.89	39,087.89	1,079,820.00	(9,267.89)		9/30/2030	3.75%	\$ 10,272.84	\$ -	\$ 8,495.84	1644
Morgan Stanley Pvt Bank	61776NU43	Corporate Bond	4.21%	2/26/2026	1,250,000.00	1,254,137.50	4,137.50	1,237,137.50	(17,000.00)	3,510.83	2/8/2029	4.09%	\$ (3,510.83)	\$ -	\$ 4,634.61	1045
John Deere Capital Corp	24422EXN4	Corporate Bond	4.90%	3/17/2026	1,000,000.00	1,024,660.00	24,660.00	1,020,670.00	(3,990.00)	1,361.11	3/7/2031	4.34%	\$ (1,361.11)	\$ -	\$ 1,689.34	1802
Subtotal					\$ 53,231,000.00	\$ 52,414,028.05	\$ (816,971.95)	\$ 53,281,469.17	\$ 867,441.12	\$ 6,118.03			\$ 3,177,870.61	\$ 2,762,140.79	\$ 1,531,106.53	
BNY MM		Money Market				1,128,226.86		1,128,226.86	0.00			0.00%				

Town of Los Gatos
Investment Transaction Detail
March 31, 2026

Date	Cusip/Id	Description	Transaction Type	Trade Date	Settlement Date	Par	Coupon	Maturity Date	Price	Principal	Interest	Transaction Total
3/2/2026	3133EPUW3	FEDERAL FARM CREDIT BANK 4.75% 01SEP2026	BOND INTEREST	3/1/2026	3/1/2026	1,000,000.00	4.750%	9/1/2026	-	-	23,750.00	23,750.00
3/2/2026	194162AR4	COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	BOND INTEREST	3/1/2026	3/1/2026	500,000.00	4.600%	3/1/2028	-	-	11,500.00	11,500.00
3/3/2026	Cash-USD	Cash-USD	SHORT TERM INVESTMENT FUND INCOME	3/3/2026	3/3/2026	764.01	0.000%		100.00	-	-	764.01
3/9/2026	3133ER5X5	FEDERAL FARM CREDIT BANK 3.875% 07MAR2028	BOND INTEREST	3/7/2026	3/7/2026	1,000,000.00	3.875%	3/7/2028	-	-	19,375.00	19,375.00
3/12/2026	037833DB3	APPLE INC 2.9% 12SEP2027 (CALLABLE 12JUN27)	BOND INTEREST	3/12/2026	3/12/2026	1,300,000.00	2.900%	9/12/2027	-	-	18,850.00	18,850.00
3/13/2026	3130AXB31	FEDERAL HOME LOAN BANK 4.875% 13MAR2026	REDEMPTION	3/13/2026	3/13/2026	1,000,000.00	0.000%	3/13/2026	100.00	1,000,000.00	-	1,000,000.00
3/13/2026	3130AXB31	FEDERAL HOME LOAN BANK 4.875% 13MAR2026	BOND INTEREST	3/13/2026	3/13/2026	1,000,000.00	0.000%	3/13/2026	-	-	24,375.00	24,375.00
3/17/2026	24422EXN4	JOHN DEERE CAPITAL CORP 4.9% 07MAR2031	PURCHASE	3/16/2026	3/17/2026	1,000,000.00	4.900%	3/7/2031	102.47	1,024,660.00	1,361.11	1,026,021.11
3/20/2026	3133EP5U5	FEDERAL FARM CREDIT BANK 4.125% 20MAR2029	BOND INTEREST	3/20/2026	3/20/2026	1,700,000.00	4.125%	3/20/2029	-	-	35,062.50	35,062.50
3/24/2026	3135G0Q22	FANNIE MAE 1.875% 24SEP2026	BOND INTEREST	3/24/2026	3/24/2026	900,000.00	1.875%	9/24/2026	-	-	8,437.50	8,437.50
3/31/2026	91282CBT7	USA TREASURY 0.75% 31MAR2026	REDEMPTION	3/31/2026	3/31/2026	800,000.00	0.000%	3/31/2026	100.00	800,000.00	-	800,000.00
3/31/2026	91282CEF4	USA TREASURY 2.5% 31MAR2027	BOND INTEREST	3/31/2026	3/31/2026	1,500,000.00	2.500%	3/31/2027	-	-	18,750.00	18,750.00
3/31/2026	91282CHZ7	USA TREASURY 4.625% 30SEP2030	BOND INTEREST	3/31/2026	3/31/2026	1,050,000.00	4.625%	9/30/2030	-	-	24,281.25	24,281.25
3/31/2026	91282CBT7	USA TREASURY 0.75% 31MAR2026	BOND INTEREST	3/31/2026	3/31/2026	800,000.00	0.000%	3/31/2026	-	-	3,000.00	3,000.00
3/31/2026	91282CFL0	USA TREASURY 3.875% 30SEP2029	BOND INTEREST	3/31/2026	3/31/2026	1,100,000.00	3.875%	9/30/2029	-	-	21,312.50	21,312.50

TOWN OF LOS GATOS, CA

Insight ESG ratings as of March 31, 2026

CUSIP	Security description	Maturity date	Par/Shares	Total market value (\$)	S&P rating	Moody's rating	Insight ESG rating	Environment	Social	Governance
02665WED9	AMERICAN HONDA FINANCE 4.7% 12JAN2028	1/12/2028	600,000	607,262	BBB+	A3	3	2	4	3
037833DB3	APPLE INC 2.9% 12SEP2027 (CALLABLE 12JUN27)	9/12/2027	1,300,000	1,283,209	AA+	Aaa	5	2	5	5
17275RBR2	CISCO SYSTEMS INC 4.85% 26FEB2029 (CALLABLE 26JAN29)	2/26/2029	1,000,000	1,023,028	AA-	A1	2	1	3	3
17325FBK3	CITIBANK NA 4.838% 06AUG2029 (CALLABLE 06JUL29)	8/6/2029	1,250,000	1,275,872	A+	Aa3	3	1	2	4
194162AR4	COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	3/1/2028	500,000	508,616	A+	Aa3	3	3	3	2
24422EXN4	JOHN DEERE CAPITAL CORP 4.9% 07MAR2031	3/7/2031	1,000,000	1,024,092	A	A1	2	1	3	3
437076CW0	HOME DEPOT INC 4.9% 15APR2029 (CALLABLE 15MAR29)	4/15/2029	1,000,000	1,041,559	A	A2	3	3	3	3
437076BM3	HOME DEPOT INC 3% 01APR2026 CALLABLE	4/1/2026	1,000,000	1,015,000	A	A2	3	3	3	3
46625HRS1	JPMORGAN CHASE & CO 3.2% 15JUN2026 (CALLABLE 30APR26)	6/15/2026	500,000	503,945	A	A1	3	2	3	5
46647PDG8	JPMORGAN CHASE & CO 4.851% 25JUL2028 (CALLABLE 25JUL27)	7/25/2028	1,400,000	1,419,341	A	A1	3	2	3	5
61776NU43	MORGAN STANLEY PVT BANK 4.213% 08FEB2030 (CALLABLE 08FEB29)	2/8/2030	1,250,000	1,245,973	A+	Aa3	3	1	3	4
69353RFJ2	PNC BANK NA 3.25% 22JAN2028 (CALLABLE 23DEC27)	1/22/2028	1,000,000	990,233	A	A2	3	3	3	2
857477CD3	STATE STREET CORP 5.272% 03AUG2026 (CALLABLE 03JUL26)	8/3/2026	800,000	809,439	A	Aa3	1	1	2	2
857477DB6	STATE STREET CORP 4.834% 24APR2030 (CALLABLE 24MAR30)	4/24/2030	580,000	601,352	A	Aa3	1	1	2	2
89236TKL8	TOYOTA MOTOR CREDIT CORP 5.45% 10NOV2027	11/10/2027	1,600,000	1,665,450	A+	A1	3	1	3	4
91159HJF8	US BANCORP 4.548% 22JUL2028 (CALLABLE 22JUL27)	7/22/2028	1,000,000	1,009,615	A	A3	3	2	3	3
Total Corporate / weighted average			15,780,000	16,023,986			3	2	3	3

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 4.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2025*	Increase/ (Decrease) July-February	March 2026				Estimated Fund Balance 3/31/2026*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
	GENERAL FUND							
	Non-Spendable:							
	Loans Receivable	159,000	-	-	-	-	-	159,000
	Restricted Fund Balances:							
	Pension	3,090,731	-	-	-	-	-	3,090,731
	Land Held for Resale	-	-	-	-	-	-	-
	Committed Fund Balances:							
	Budget Stabilization	7,870,639	-	-	-	-	-	7,870,639
	Catastrophic	7,870,639	-	-	-	-	-	7,870,639
	Pension/OPEB	1,300,000	-	-	-	-	-	1,300,000
	Measure G District Sales Tax	-	-	-	-	-	-	-
	Assigned Fund Balances:							
	Open Space	410,000	-	-	-	-	-	410,000
	Sustainability	140,553	-	-	-	-	-	140,553
	Capital/Special Projects	1,983,271	-	-	-	-	-	1,983,271
	Carryover Encumbrances	6,367	-	-	-	-	-	6,367
	Compensated Absences	1,519,243	-	-	-	-	-	1,519,243
	ERAF Risk Reserve	-	-	-	-	-	-	-
	Market Fluctuations	1,201,824	-	-	-	-	-	1,201,824
	Council Priorities - Economic Recovery	-	-	-	-	-	-	-
	Unassigned Fund Balances:							
111	Other Unassigned Fund Balance Reserve (Pre YE distribution)	10,211,049	(2,094,718)	5,515,793	(4,580,522)	-	-	9,051,602
	General Fund Total	35,763,316	(2,094,718)	5,515,793	(4,580,522)	-	-	34,603,869

* Interfund transfers to be performed as part of the fiscal year end closing entries.

Fund Schedule

Item 4.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2025*	Increase/ (Decrease) July-February	March 2026				Estimated Fund Balance 3/31/2026*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
SPECIAL REVENUE								
211/212	CDBG	166,653	-	-	-	-	-	166,653
222	Urban Runoff (NPDES)	664,168	2,135	13,641	(11,198)	-	-	668,746
231-236	Landscape & Lighting Districts	193,606	2,097	-	(2,792)	-	-	192,911
251	Los Gatos Theatre	381,120	144,950	13,251	(1,201)	-	-	538,120
261-264,269	Library Trusts	559,745	46,550	-	(3,763)	-	-	602,532
Special Revenue Total		1,965,292	195,732	26,892	(18,954)	-	-	2,168,962
CAPITAL PROJECTS								
411	GFAR - General Fund Appropriated Reserve	16,974,946	1,097,160	94,649	(236,292)	-	-	17,930,463
412	Community Center Development	819,604	-	-	-	-	-	819,604
421	Grant Funded Projects	(1,577,430)	1,076,469	628,098	(8,625)	-	-	118,512
461-463	Storm Basin Projects	2,825,234	78,065	30,460	-	-	-	2,933,759
471	Traffic Mitigation Projects	676,482	-	-	-	-	-	676,482
472	Utility Undergrounding Projects	3,763,913	20,490	-	-	-	-	3,784,403
481	Gas Tax Projects	2,130,548	75,793	144,018	-	-	-	2,350,359
Capital Projects Total		25,613,297	2,347,977	897,225	(244,917)	-	-	28,613,582
INTERNAL SERVICE FUNDS								
611	Town General Liability	208,746	(739,671)	-	(17,155)	-	-	(548,080)
612	Workers Compensation	1,259,972	(34,369)	33,043	(5,378)	-	-	1,253,268
621	Information Technology	2,585,103	(406,876)	170,818	(46,246)	-	-	2,302,799
631	Vehicle & Equipment Replacement	3,890,428	428,448	291,886	-	-	-	4,610,762
633	Facility Maintenance	820,099	(104,412)	296,079	(154,445)	-	-	857,321
Internal Service Funds Total		8,764,348	(856,880)	791,826	(223,224)	-	-	8,476,070
Trust/Agency								
942	RDA Successor Agency	(3,037,146)	(1,736,125)	-	(155)	-	-	(4,773,426)
Trust/Agency Fund Total		(3,037,146)	(1,736,125)	-	(155)	-	-	(4,773,426)
Total Town		69,069,107	(2,144,014)	7,231,736	(5,067,772)	-	-	69,089,057

* Interfund transfers to be performed as part of the fiscal year end closing entries.

Deposit Accounts of Interest:

- 111-23541 General Plan Update deposit account balance \$620,481.82
- 111-23521 BMP Housing deposit account balance \$3,723,190.79



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/11/2026

ITEM NO: 5

Item 5.

DATE: May 11, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024

RECOMMENDATION:

Receive the Foster and Foster Independent Actuarial Reports as of June 30, 2024.

FISCAL IMPACT:

There is no immediate fiscal impact from receiving these reports. The reports describe existing and projected CalPERS contribution obligations and potential future policy options, but no appropriation, budget amendment, or Additional Discretionary Payment is requested by this item.

STRATEGIC PRIORITIES:

The item provides information that supports the Town's top strategic priority of ensuring prudent financial management.

BACKGROUND:

The Town's pension plans are administered by the Board of Administration of the California Public Employees' Retirement System (CalPERS). The Board of Administration is responsible for the management and control of CalPERS. In addition, the Board has exclusive control of the administration and investment of funds. Sworn employees are covered under the Safety Plan, which is a pooled plan, while all other employees are covered in the Miscellaneous Plan, which is a separate plan. The Miscellaneous Plan is administered by CalPERS in the Public Employees' Retirement Fund (PERF).

For the Town to understand the value of future pension benefit payments, actuarial valuations are performed each year for the pension plans. The CalPERS actuary estimates the payments

PREPARED BY: Kristina Alfaro
Administrative Services Director

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

PAGE 2 OF 3

SUBJECT: Foster and Foster Independent Actuarial Report – 06-30-24 Valuations

DATE: May 11, 2026

that will be made for all potential retirees from each plan in each future year. The actuary calculates the present value of future benefits the plan will be required to pay to its current participants: those still working who will retire in the future, retirees, and those who have terminated employment but have not yet begun drawing benefits. CalPERS completes its review a year in arrears with FY 2024-25 or 2025 valuations are expected from CalPERS in October 2026. The 2024 valuation reports provide the determination of the minimum required employer contributions for fiscal year (FY) 2026-27. In addition, the reports also contain important information regarding the current financial status of the plans as well as projections and risk measures to aid in planning for the future. The pension funding information presented in this report should not be used in financial reports subject to the Governmental Accounting Standards Board (GASB) Statement No. 68 for an Agent Employer Defined Benefit Pension Plan.

The Town contracts with an actuarial firm to provide an independent review of the Town's data to ensure sufficient funding, as CalPERS assumption has resulted in the Town not contributing enough in prior years based on payroll estimates in the CalPERS valuation. Staff has received the annual Independent Actuarial Report from Foster and Foster for the Miscellaneous Plan and the Classic and PEPRSA Safety Plan (Attachment 1). The measurement date for each of the Plans is as of June 30, 2024. These reports provide the Town's Finance Commission with an understanding of the scale of future pension costs, the risks associated with underperformance, and strategies that could mitigate long-term exposure.

DISCUSSION:

Based on the June 30, 2025 projected funded status shown in Attachment 1, the Miscellaneous Plan reported a projected accrued liability of \$141.3 million against the market value of assets of \$116.4 million, leaving an Unfunded Accrued Liability (UAL) of 24.9 million and a funded ratio of 82.4%. The Safety and PEPRSA Safety Plans combined reported an accrued liability of \$125.0 million against the market value of assets of \$93.7 million, leaving a UAL of \$31.3 million and a funded ratio of 75.0%. Together, the Town's total pension debt stands at approximately \$56.2 million.

For fiscal year 2025–26, the Miscellaneous Plan requires an employer normal cost contribution of 11.2% of payroll, in addition to an annual UAL payment of \$3.29 million. This UAL payment may be made monthly at \$274,000 or prepaid in July at \$3.19 million. For the Safety and PEPRSA Safety Plans, the employer's normal cost contributions are 29.38% for Classic members and 14.86% for PEPRSA members, with a UAL contribution of \$3.40 million. The Safety UAL payment may be made monthly at \$283,000 or prepaid at \$3.29 million.

Exhibit 1 Foster and Foster Independent Actuarial Report – 06-30-24 Valuations (page 11)

June 30, 2024	Miscellaneous Plan	Safety & PEPRA Safety Plan
Projected Accrued Liability	\$137,200,000	\$121,200,000
Projected Market Value of Assets	\$106,000,000	\$85,200,000
Projected Unfunded Accrued Liability	\$31,200,000	\$36,000,000
Projected Funded Ratio	77.2%	70.3%

Looking forward, the miscellaneous plans show a decrease for the first two years of the forecast period, a slight increase in FY 2028-29, and then continued decreases for the remainder of the forecast period, as shown on page 20 of Attachment 1. The safety plans show slight increases and decreases until FY 2029-30, at which point the plan starts to decrease for the remainder of the forecast period.

Policy Considerations

The Town has several policy options available to address these long-term pension obligations. First, the Town may continue paying the required minimum contributions established by CalPERS. Second, the Town could make Additional Discretionary Payments (ADPs) to accelerate the payoff of pension debt. For the Miscellaneous Plan, paying \$1.778M on or before 6/30/26 could result in a reduction in costs of \$533,000 if the Town paid down the shortest base, and \$144,000 if the longest base(s) are paid down. For safety, a \$2.237M payment on the shortest base is estimated to save \$330,000 and \$160,000 for the longest base(s).

These reports are attached (Attachment 1).

CONCLUSION:

In conclusion, while the Town's pension funded status has improved modestly, the combined unfunded liability was \$67.2 million as of June 30, 2024 and is projected at \$56.2 million as of June 30, 2025 and continues to present a major long-term fiscal challenge. Although longer term projections show only minor increases and steady declines, much of this funding relief is being driven by favorable returns. Should the market shift over a prolonged period, this could result in higher costs.

COORDINATION:

This staff report was coordinated with the Town Manager and Town Attorney.

Attachments:

1. Foster and Foster Independent Actuarial Report – 06-30-24 Valuations

TOWN OF LOS GATOS
CALPERS MISCELLANEOUS & SAFETY PLANS
INDEPENDENT ACTUARIAL REPORT - 6/30/24 VALUATIONS



ATTACHMENT 1

April 22, 2026

We are pleased to present this independent actuarial analysis of the Town of Los Gatos CalPERS Retirement Plans. The purpose of this report is to provide the Town:

- Historical perspective on the plan investment returns, assets, funded status and contributions.
- Projections of likely future contributions and the impact of investment volatility.

The calculations and projections in this report are based on information contained in the Town's June 30, 2024 and earlier CalPERS actuarial valuation reports. We reviewed this information for reasonableness, but do not make any representation on the accuracy of the CalPERS reports.

Future investment returns and volatility are based on Foster & Foster's Capital Market model.

Information provided in this report may be useful to the Town for the Plan's financial management. Future actuarial measurements may differ significantly from the current measurements presented in this report due to such factors as: plan experience differing from that anticipated by the assumptions; changes in assumptions; changes expected as part of the natural progression of the plan; and changes in plan provisions or applicable law. Actuarial models necessarily rely on the use of estimates and are sensitive to changes. Small variations in estimates may lead to significant changes in actuarial measurements. Due to the limited scope of this assignment, we did not perform an analysis of the potential range of such measurements.

To the best of our knowledge, this report is complete and accurate and has been conducted using generally accepted actuarial principles and practices. As members of the American Academy of Actuaries meeting the Academy Qualification Standards, we certify the actuarial results and opinions herein.

If there are any questions, concerns, or comments about any of the items contained in this report, please contact us at (650) 377-1600.

Respectfully submitted,

Foster & Foster Consulting Actuaries, Inc.

By: 
Drew Ballard, FSA, EA, MAAA

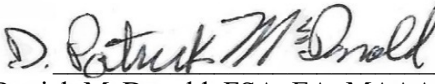
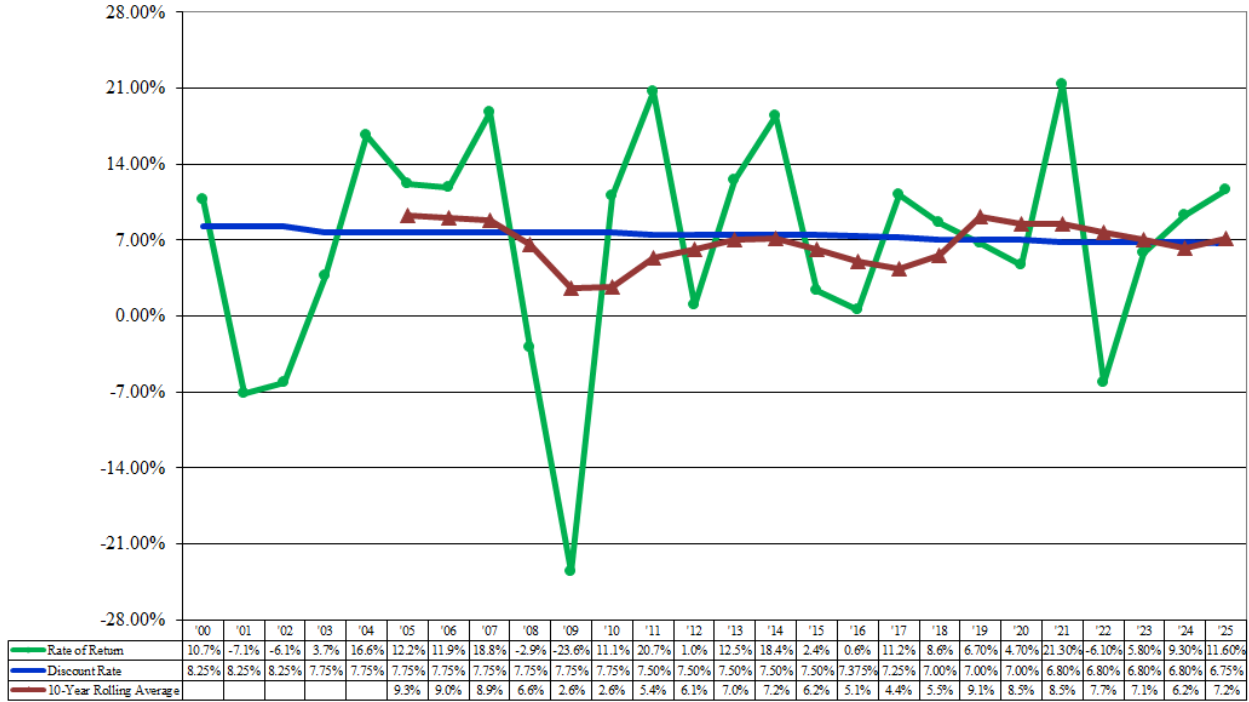
By: 
D. Patrick McDonald, FSA, EA, MAAA

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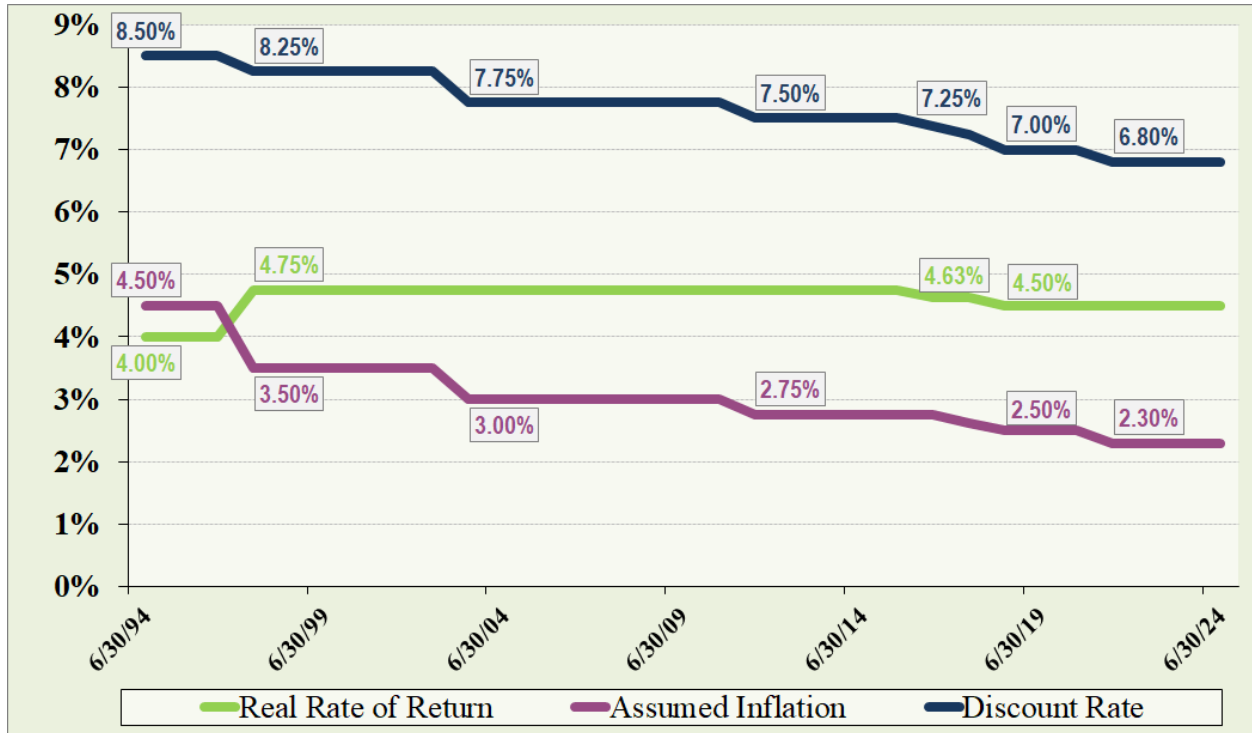
INVESTMENT RETURN

Annual Return on Market Value of Assets



Discount rates are expected returns net of administrative expenses. 2013/14 through 2024/25 “money-weighted” returns reported in CalPERS AFMR (without lags on private equity and real estate) are 18.3%, 2.2%, 0.5%, 11.2%, 8.4%, 6.5%, 5.0%, 22.4%, -7.5%, 6.1%, 9.5%, and 12.1%, respectively.

Historical Discount Rates



DEMOGRAPHICS

- Around the State
 - Large retiree liability compared to actives
 - State average: 61% for Miscellaneous, 64% for Safety
 - Declining active population and increasing number of retirees
 - Higher percentage of retiree liability increases contribution volatility

- Town of Los Gatos percentage of liability belonging to retirees:
 - Miscellaneous 64%
 - Safety 75%



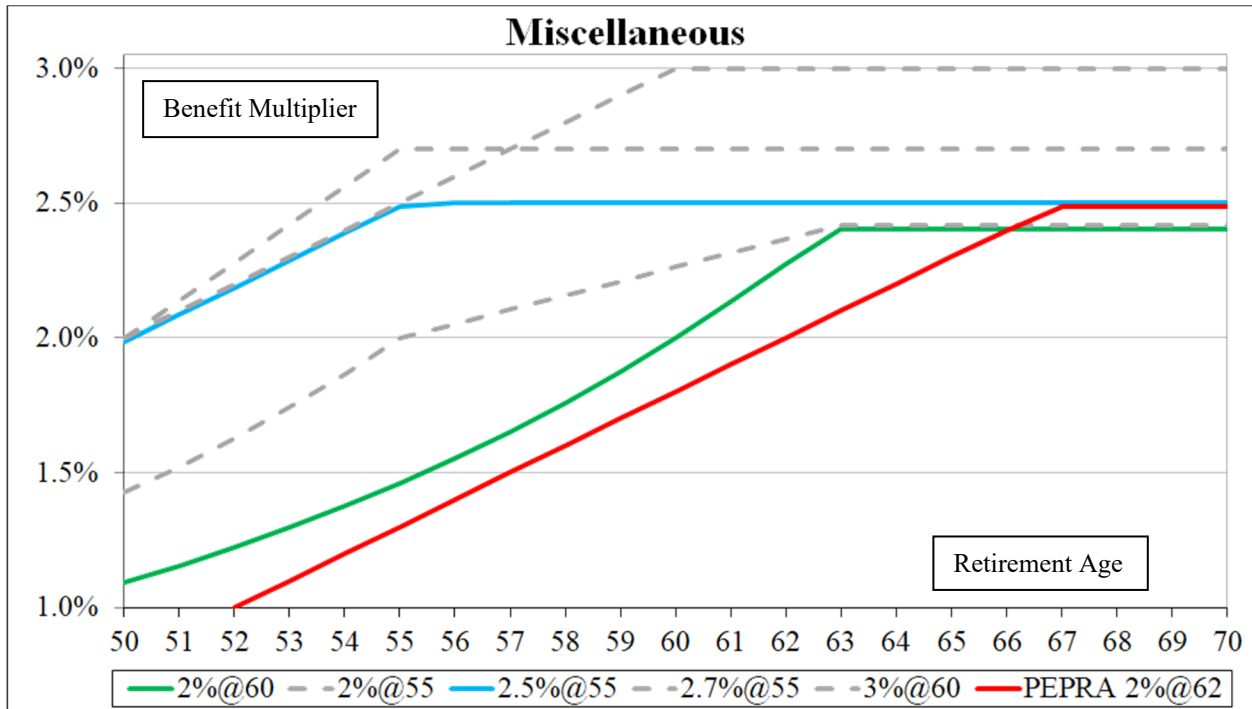
TOWN BENEFITS

- At CalPERS, Enhanced Benefits implemented using all (future & prior) service
- Typically not negotiated with cost sharing
- Town of Los Gatos

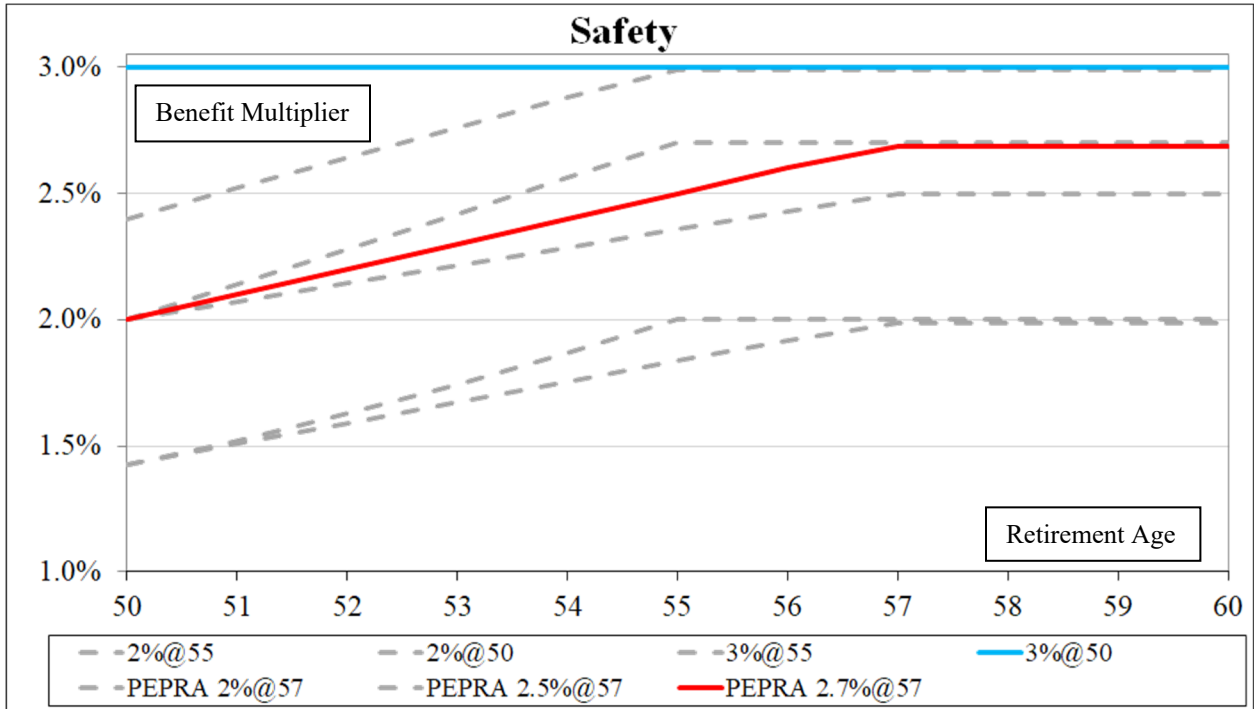
	Tier 1	Tier 2	PEPRA
Miscellaneous	2.5%@55 FAC1	2%@60 FAC3	2%@62 FAC3
Safety Police	3%@50 FAC1	N/A	2.7%@57 FAC3

- Benefit = (Years of Town Service) x Percentage x FAC
 - Percentage varies by retirement age (see following charts)
 - FAC1 is highest one year (typically final) average earnings
 - FAC3 is highest three years (typically final three) average earnings

- PEPRA tier implemented for new employees hired after 1/1/13
 - Employee pays half of total normal cost
 - 2026 Compensation limit
 - Social Security participants: \$159,733
 - Non-Social Security participants: \$191,679



TOWN BENEFITS



RISK MITIGATION

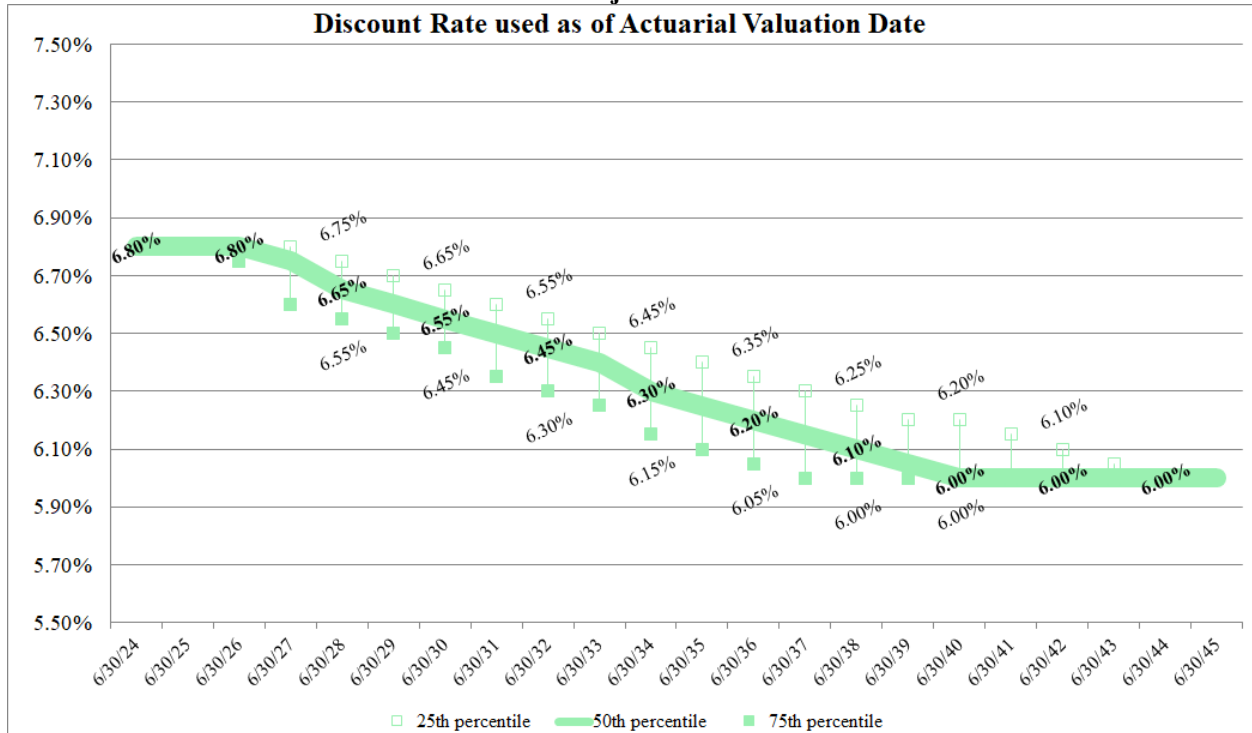
Overview

- Move to more conservative investments over time to reduce volatility/risk
 - Only when investment return is better than expected
 - Lower discount rate in concert

Excess Investment Return	Reduction in Discount Rate
If the actual investment returns exceed the discount rate by:	Then the discount rate will be reduced by:
2%	0.05%
7%	0.10%
10%	0.15%
13%	0.20%
17%	0.25%

- Essentially use ≈50% of investment gains to pay for cost increases
- Ultimate goal of 8% standard deviation on portfolio
- Likely get to 6.0% discount rate over 20+ years
 - Risk mitigation suspended from 6/30/16 to 6/30/18 valuation
 - Not triggered for 6/30/19 or 6/30/20 valuations
- First triggered for 6/30/21 valuation – 6.8% discount rate
- Not triggered for 6/30/22 or 6/30/23 valuations
- April 16, 2024 CalPERS Board removed automatic trigger
- Staff recommends no change to the discount rate for June 30, 2024 & June 30, 2025

Projection



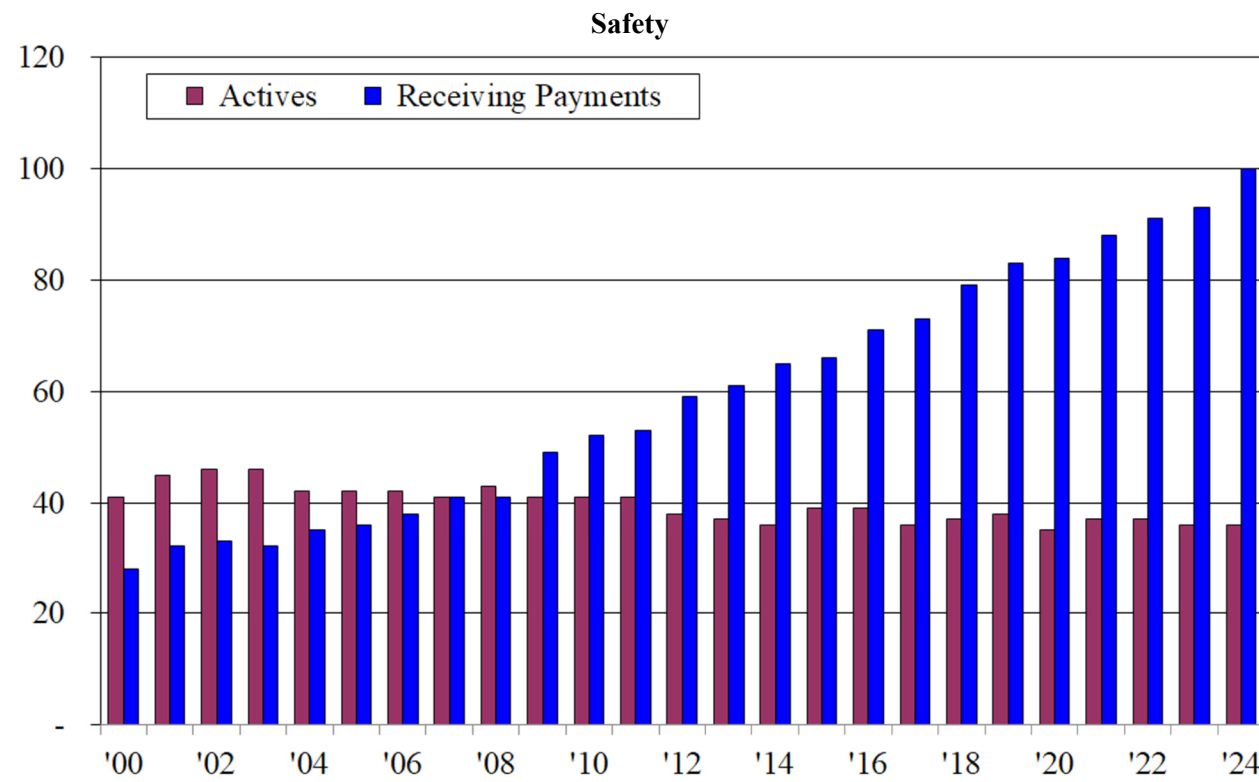
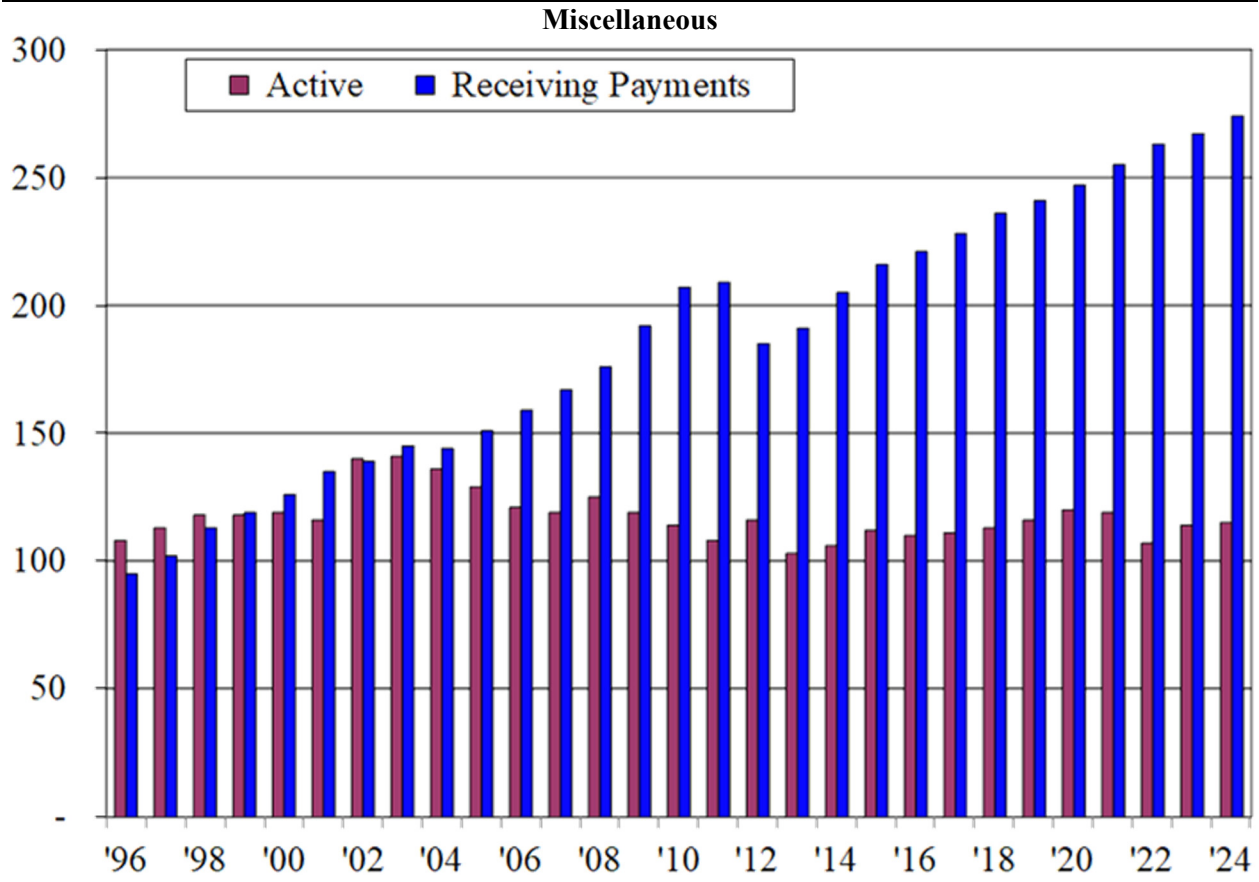
SUMMARY OF DEMOGRAPHIC INFORMATION

Miscellaneous				
	2004	2014	2023	2024
Actives				
■ Counts	136	106	114	115
■ Average				
• Age	47	46	45	46
• Town Service	9	9	7	8
• PERSable Wages	\$64,900	\$77,700	\$111,900	\$117,400
■ Total PERSable Wages	8,800,000	8,200,000	12,800,000	13,500,000
Inactive Members				
■ Counts				
• Transferred	79	89	112	115
• Separated	71	80	100	102
• Retired				
□ Service	117	176	231	234
□ Disability	9	11	13	16
□ Beneficiaries	<u>18</u>	<u>18</u>	<u>23</u>	<u>24</u>
□ Total	144	205	267	274
■ Average Annual Town Provided Pension for Service Retirees ¹	\$11,900	\$24,000	\$28,600	\$29,100
Safety				
	2004	2014	2023	2024
Actives				
■ Counts	42	36	36	36
■ Average				
• Age	n/a	n/a	42	42
• Town Service	n/a	n/a	9	8
• PERSable Wages	\$94,900	\$128,400	\$156,700	\$170,100
■ Total PERSable Wages	4,000,000	4,600,000	5,600,000	6,100,000
Inactive Members				
■ Counts				
• Transferred	25	14	14	16
• Separated	5	4	6	7
• Receiving Payments	35	65	93	100

¹ Average pension based on Town service & Town benefit formula; not representative of long-service employees.



SUMMARY OF DEMOGRAPHIC INFORMATION



PLAN FUNDED STATUS

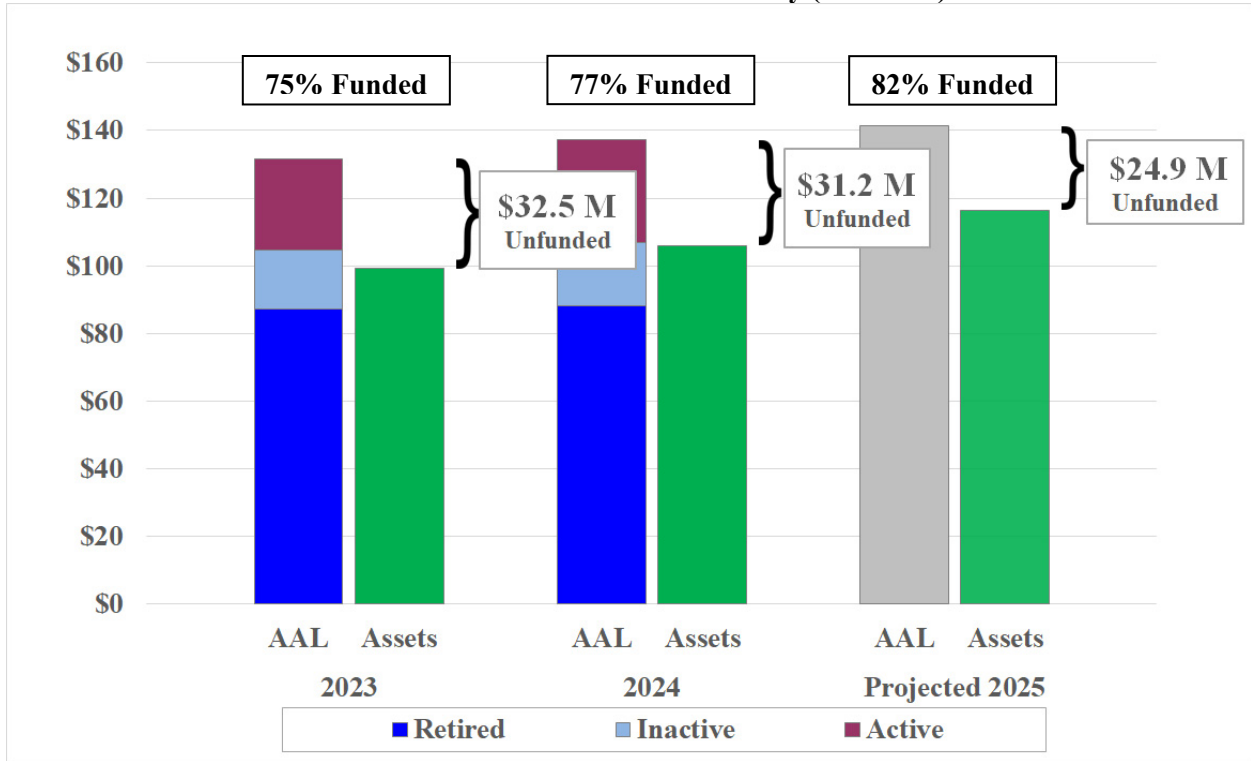
Miscellaneous		
	June 30, 2023	June 30, 2024
■ Actuarial Accrued Liability		
• Active	\$ 27,000,000	\$ 30,300,000
• Retiree	87,200,000	88,300,000
• Inactive	<u>17,500,000</u>	<u>18,600,000</u>
• Total	131,700,000	137,200,000
■ Assets	<u>99,200,000</u>	<u>106,000,000</u>
■ Unfunded Liability	32,500,000	31,200,000
■ Funded Ratio	75.3%	77.2%
■ Average funded ratio for CalPERS Miscellaneous:		
• Public Agency Plans	73.3%	75.5%
• City & Town Plans	73.8%	75.8%

Safety		
	June 30, 2023	June 30, 2024
■ Actuarial Accrued Liability		
• Active	\$ 26,200,000	\$ 23,800,000
• Retiree	84,100,000	91,000,000
• Inactive	<u>5,900,000</u>	<u>6,400,000</u>
• Total	116,200,000	121,200,000
■ Assets	<u>79,500,000</u>	<u>85,200,000</u>
■ Unfunded Liability	36,700,000	36,000,000
■ Funded Ratio	68.4%	70.3%
■ Average funded ratio for CalPERS Miscellaneous:		
• Public Agency Plans	70.9%	72.9%
• City & Town Plans	70.9%	72.7%

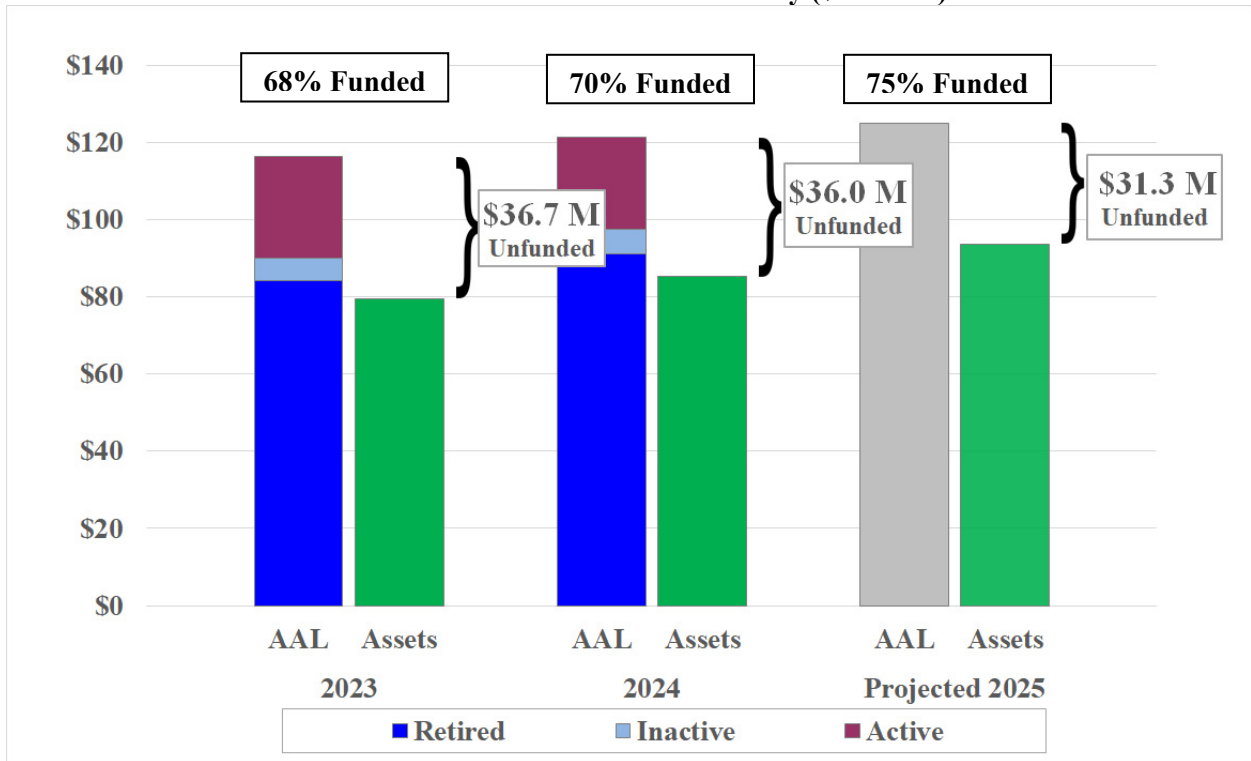


PLAN FUNDED STATUS

Miscellaneous
CalPERS Assets and Actuarial Liability (\$Millions)²



Safety
CalPERS Assets and Actuarial Liability (\$Millions)²



² Projected 2025 assets reflect 12.1% investment return for 2024/25.



PLAN FUNDED STATUS

Miscellaneous Unfunded Accrued Liability Changes

	UAAL
■ Unfunded Accrued Liability on 6/30/23	\$32,500,000
■ Expected 6/30/24 Unfunded Accrued Liability	32,200,000
■ Changes	
• Asset Loss (Gain) (9.5% return for FY 2024)	(2,600,000)
• Contribution & Experience Loss (Gain)	<u>1,600,000</u>
• Total	<u>(1,000,000)</u>
■ Unfunded Accrued Liability on 6/30/24	31,200,000
■ Projected Unfunded Accrued Liability on 6/30/25 ³	24,900,000

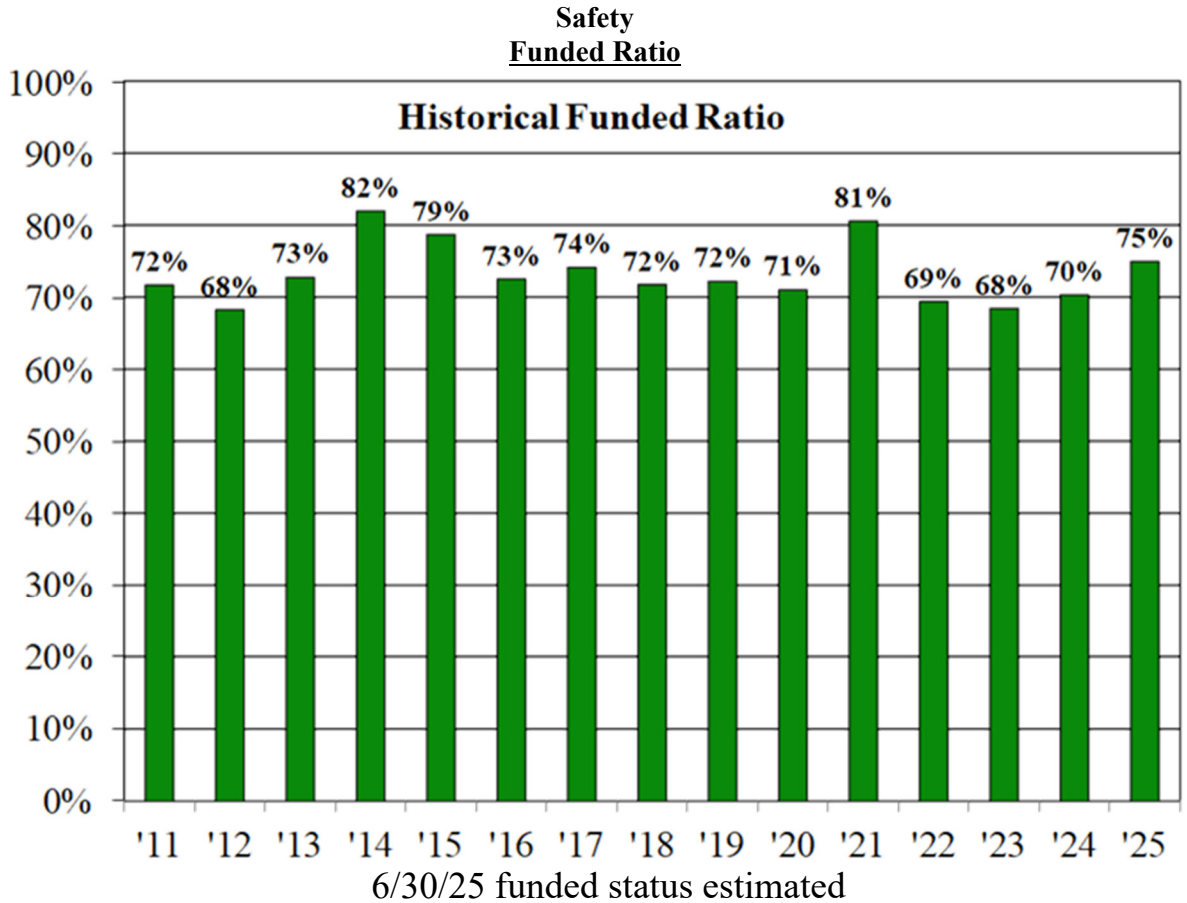
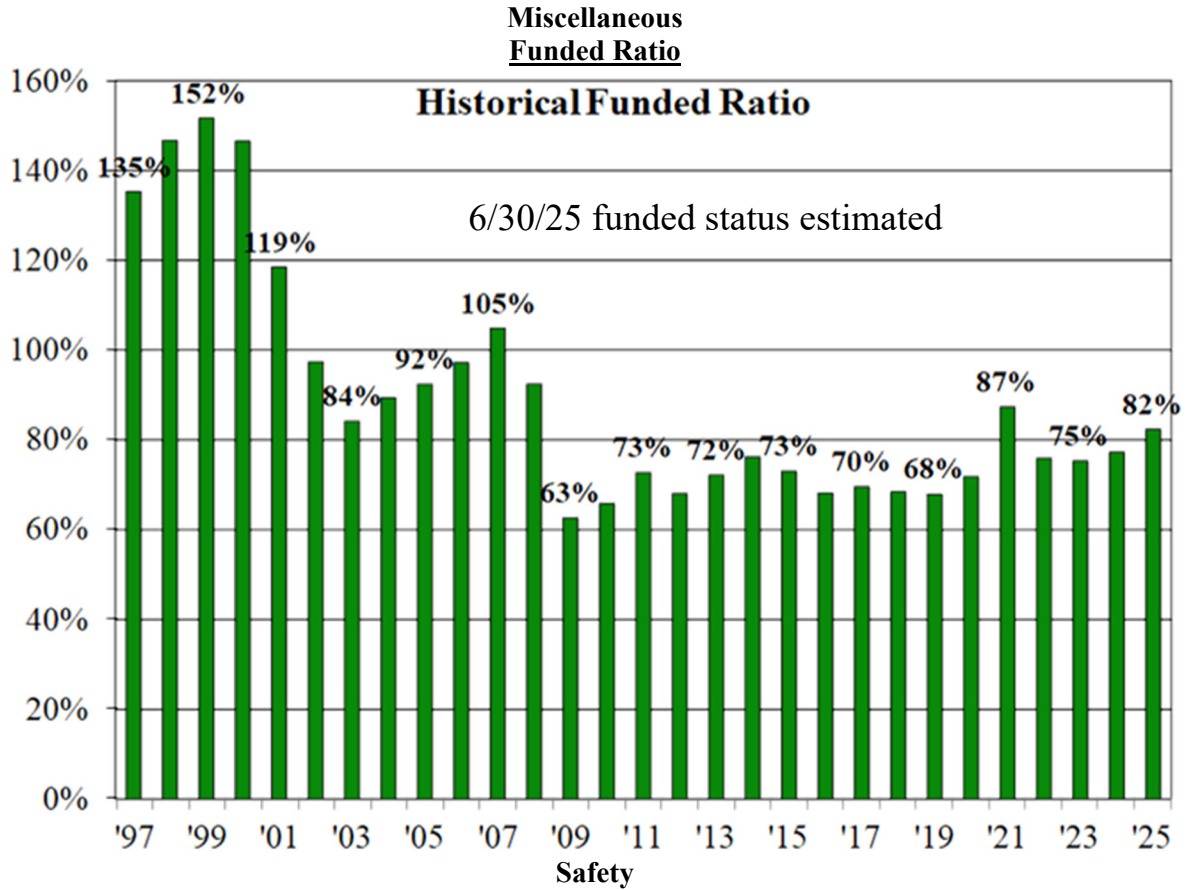
Safety Unfunded Accrued Liability Changes

	UAAL
■ Unfunded Accrued Liability on 6/30/23	\$36,700,000
■ Expected 6/30/24 Unfunded Accrued Liability	36,800,000
■ Changes	
• Asset Loss (Gain) (9.5% return for FY 2024)	(2,100,000)
• Contribution & Experience Loss (Gain)	<u>1,300,000</u>
• Total	<u>(800,000)</u>
■ Unfunded Accrued Liability on 6/30/24	36,000,000
■ Projected Unfunded Accrued Liability on 6/30/25 ³	31,300,000

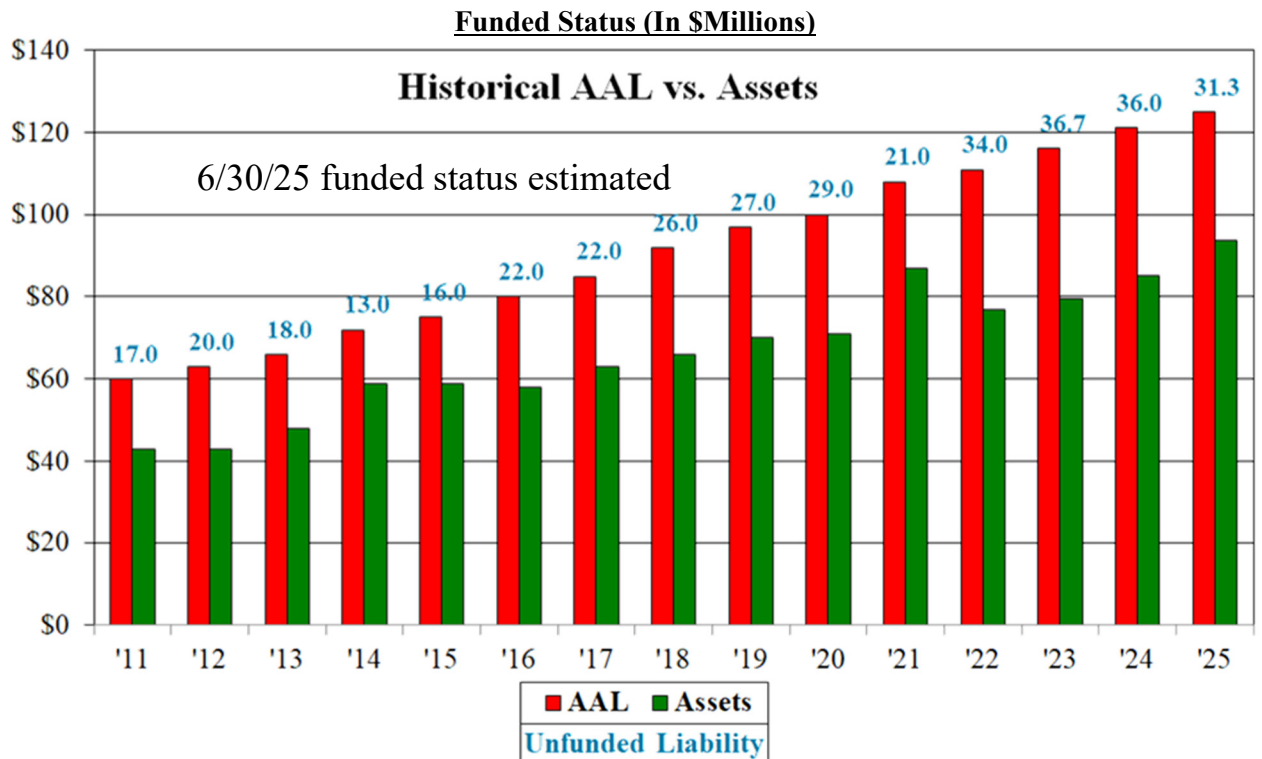
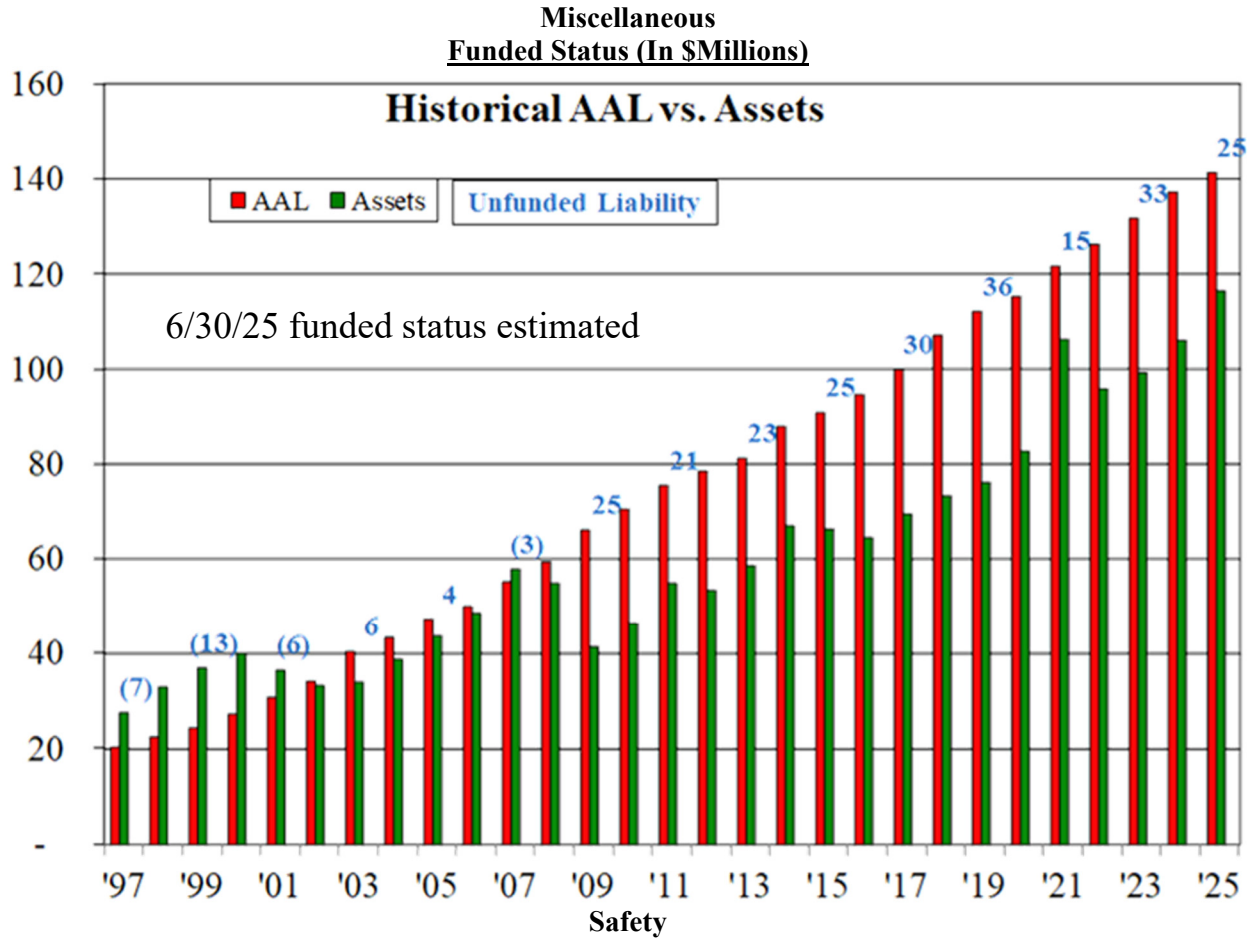
³ Projected 2025 assets reflect 12.1% investment return for 2024/25.



FUNDED RATIO

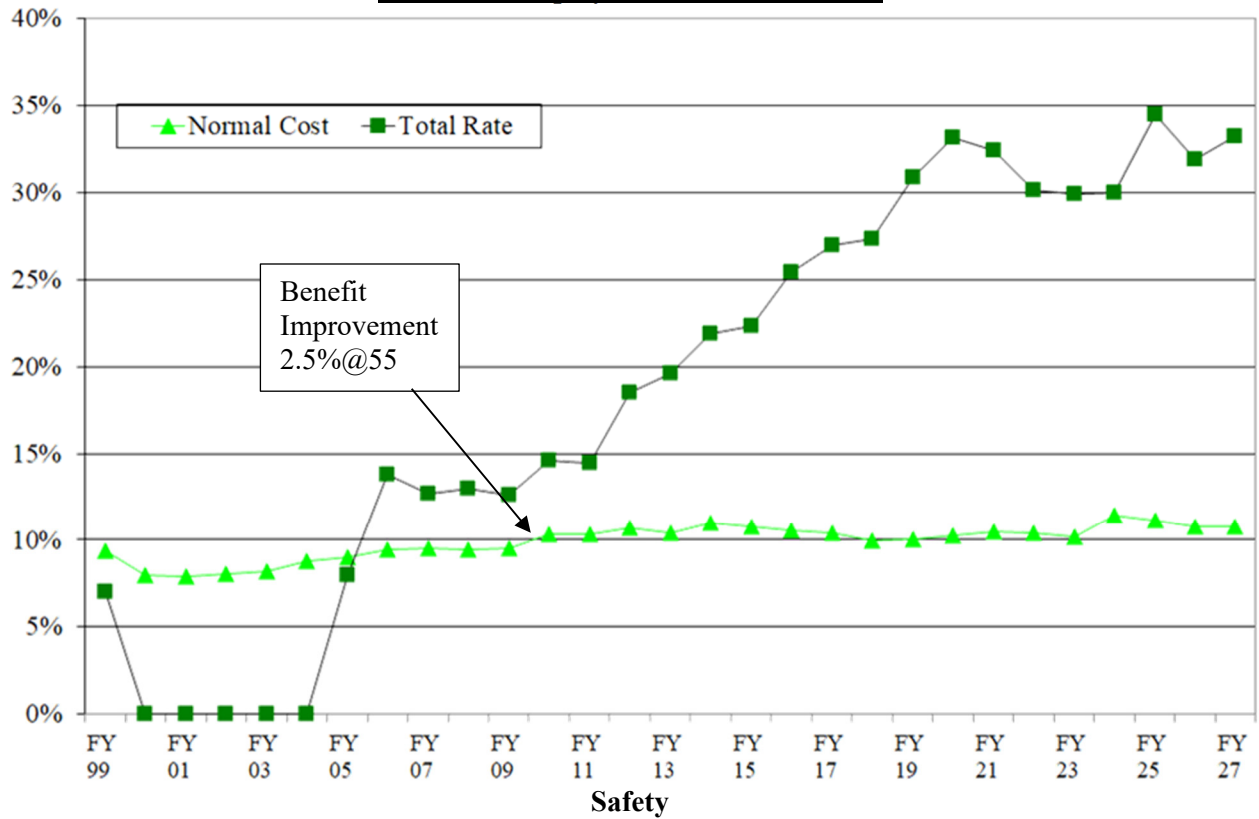


FUNDED STATUS

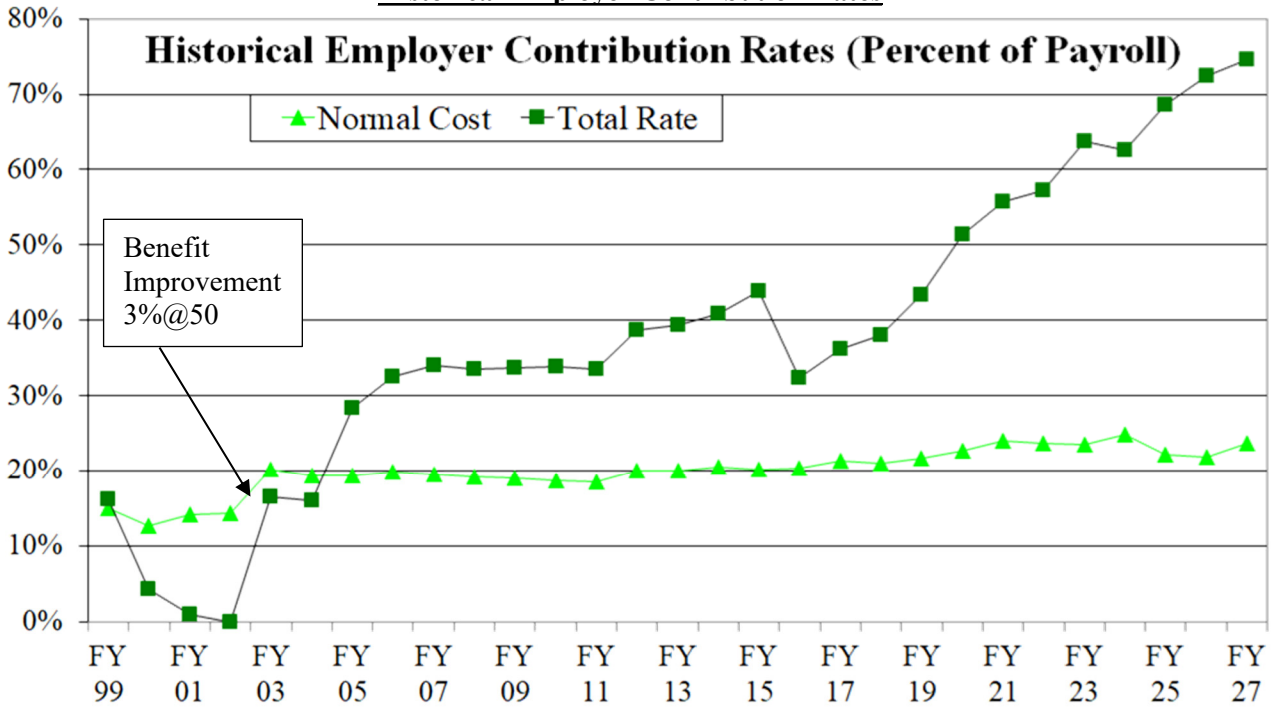


CONTRIBUTION RATES

Miscellaneous Historical Employer Contribution Rates



Safety Historical Employer Contribution Rates



CONTRIBUTION RATES

Miscellaneous		
	6/30/23	6/30/24
	2025/2026	2026/2027
■ Total Normal Cost	18.4%	18.4%
■ Employee Normal Cost	<u>7.6%</u>	<u>7.6%</u>
■ Employer Normal Cost	10.8%	10.8%
■ Amortization Payments	<u>21.1%</u>	<u>22.5%</u>
■ Total Employer Contribution Rate	31.9%	33.3%
■ 2025/26 Employer Contribution Rate		31.9%
• 6/30/24 investment (gain)/loss (9.5% vs. 6.8%)		(0.4%)
• Progression of amortization bases		1.8%
• Other/non-investment (Gains)/Losses		<u>0.0%</u>
■ 2026/27 Employer Contribution Rate		33.3%

2026/27 Amortization Payment

- Amortization payment is 10.8% of UAL (one year interest on UAL is 6.8%)
 - Payment exceeds interest on the UAL
 - No “negative amortization.”
- Amortization payment equivalent to:
 - 13.5 years on level dollar amortization schedule (all payments are the same amount)
 - 11.2 years on level percent of payroll schedule (payments increase 2.8% annually)

Safety

	6/30/23	6/30/24
	2025/2026	2026/2027
■ Total Normal Cost	33.7%	34.8%
■ Employee Normal Cost	<u>11.9%</u>	<u>11.2%</u>
■ Employer Normal Cost	21.8%	23.6%
■ Amortization Payments	<u>50.7%</u>	<u>51.1%</u>
■ Total Employer Contribution Rate	72.5%	74.7%
■ 2025/26 Employer Contribution Rate		72.5%
• (Gains)/Losses		<u>2.2%</u>
■ 2026/27 Employer Contribution Rate		74.7%

2026/27 Amortization Payment

- Amortization payment is 9.4% of UAL (one year interest on UAL is 6.8%)
 - Payment exceeds interest on the UAL
 - No “negative amortization.”
- Amortization payment equivalent to:
 - 17.1 years on level dollar amortization schedule (all payments are the same amount)
 - 13.2 years on level percent of payroll schedule (payments increase 2.8% annually)



CONTRIBUTION PROJECTION

■ Investment returns:

- June 30, 2025 12.1%⁴
- Future returns based on stochastic analysis using 1,000 trials
- Single year returns⁵ with current investment mix, no risk mitigation:

	Percentile		
	25th	50th	75th
First 6 years	-2.2%	5.7%	14.5%
After 6 years	-0.6%	7.5%	16.4%

- Assumes investment returns will generally be lower over the next 6 years and higher beyond that
- No Discount Rate decreases due to Risk Mitigation policy – Ultimate rate 6.8%
- No Other: Gains/Losses, Method/Assumption Changes, Benefit Improvements
- Different from CalPERS projection

■ New hire assumptions:

- All new hires assumed PEPRA members and none are Classic members

■ Miscellaneous 6/30/24 employee distribution:

Benefit Tier	Count	% of Total	23/24 Payroll	% of Total
2.5%@55 FAC1	22	19.1%	\$ 2,922,200	21.6%
2%@60 FAC3	19	16.5%	2,916,700	21.6%
2%@62 FAC3 (PEPRA)	74	64.4%	7,665,300	56.8%
Total	115	100.0%	13,504,200	100.0%

■ Town-provided Miscellaneous payroll:

FYE	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Payroll (000s)	\$15,852	\$17,314	\$17,787	\$18,205	\$18,583	\$18,954	\$19,333

■ Safety 6/30/24 employee distribution:

Benefit Tier	Count	% of Total	23/24 Payroll	% of Total
3%@50 FAC1	19	52.8%	\$3,700,000	60.4%
2.7%@57 FAC3 (PEPRA)	17	47.2%	2,422,600	39.6%
Total	36	100.0%	6,122,600	100.0%

■ Town-provided Safety payroll (\$000s):

FYE	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32
Classic	\$4,878	\$5,142	\$5,277	\$5,399	\$5,507	\$5,617	\$5,730
PEPRA	2,326	2,429	2,477	2,527	2,577	2,628	2,680
Total	7,204	7,571	7,754	7,926	8,084	8,245	8,410

■ Employee Cost Sharing of Employer Contribution:

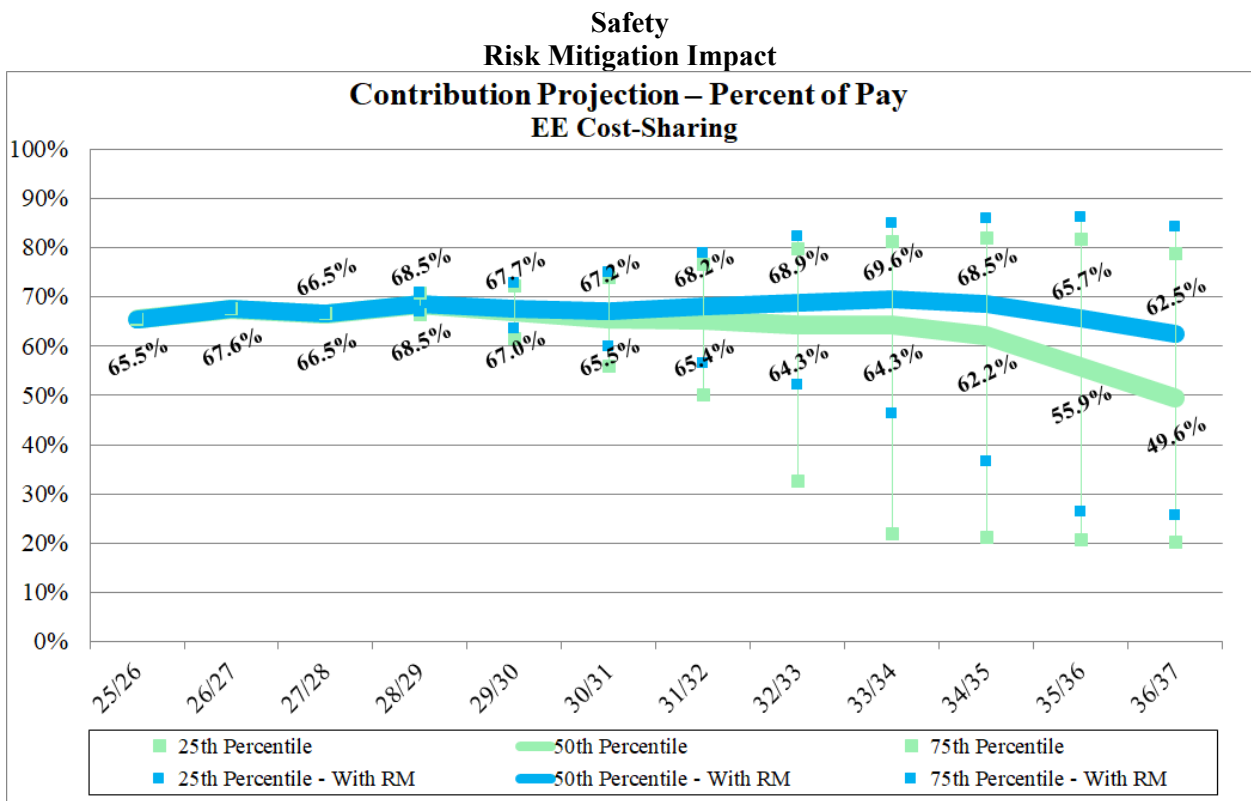
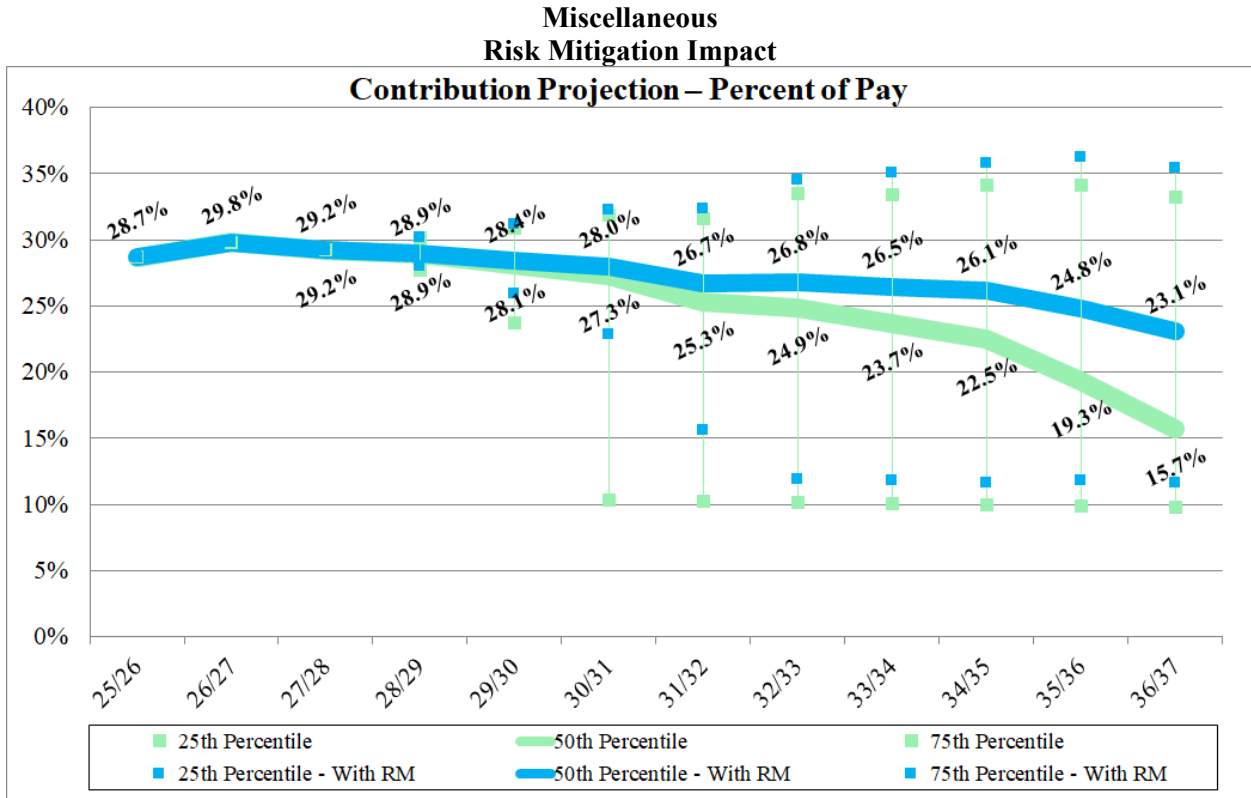
- Miscellaneous: None
- Safety: 3% of pay employee share for Classic members

⁴ Gross return based on CalPERS Basic Financial Statements for fiscal year ending June 30, 2025.

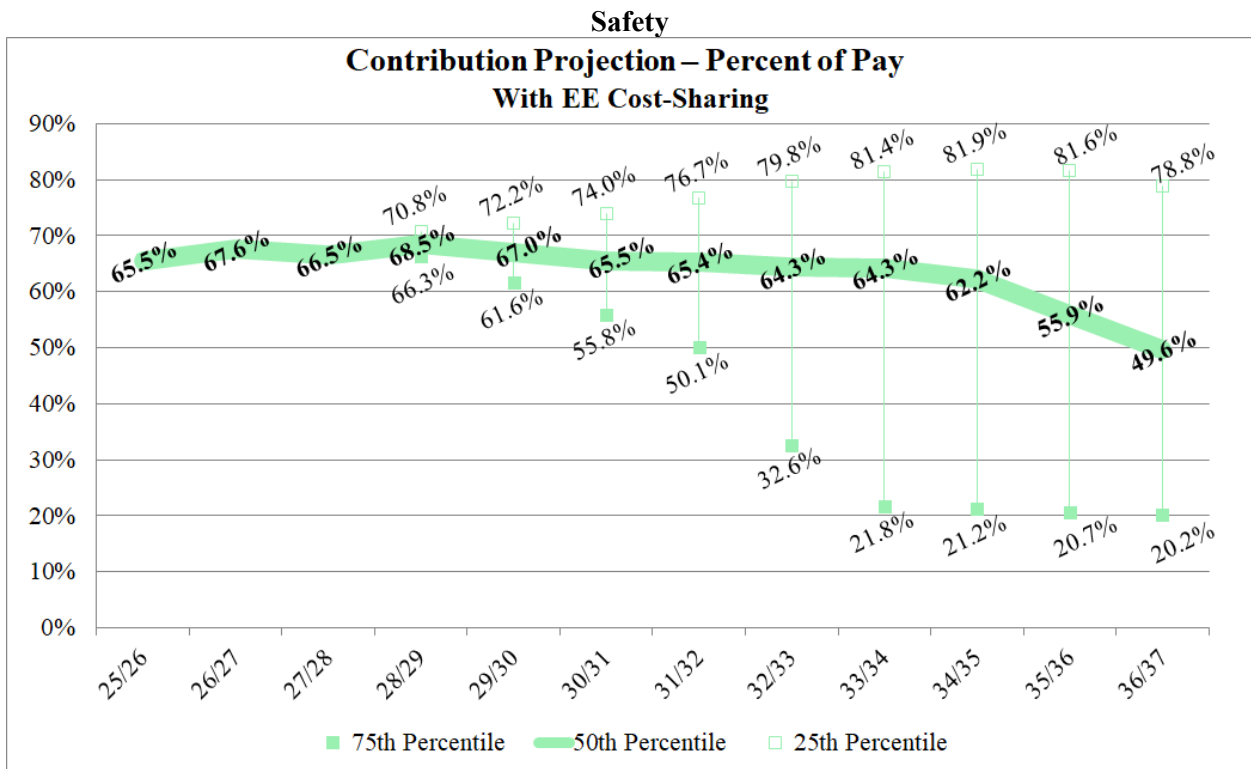
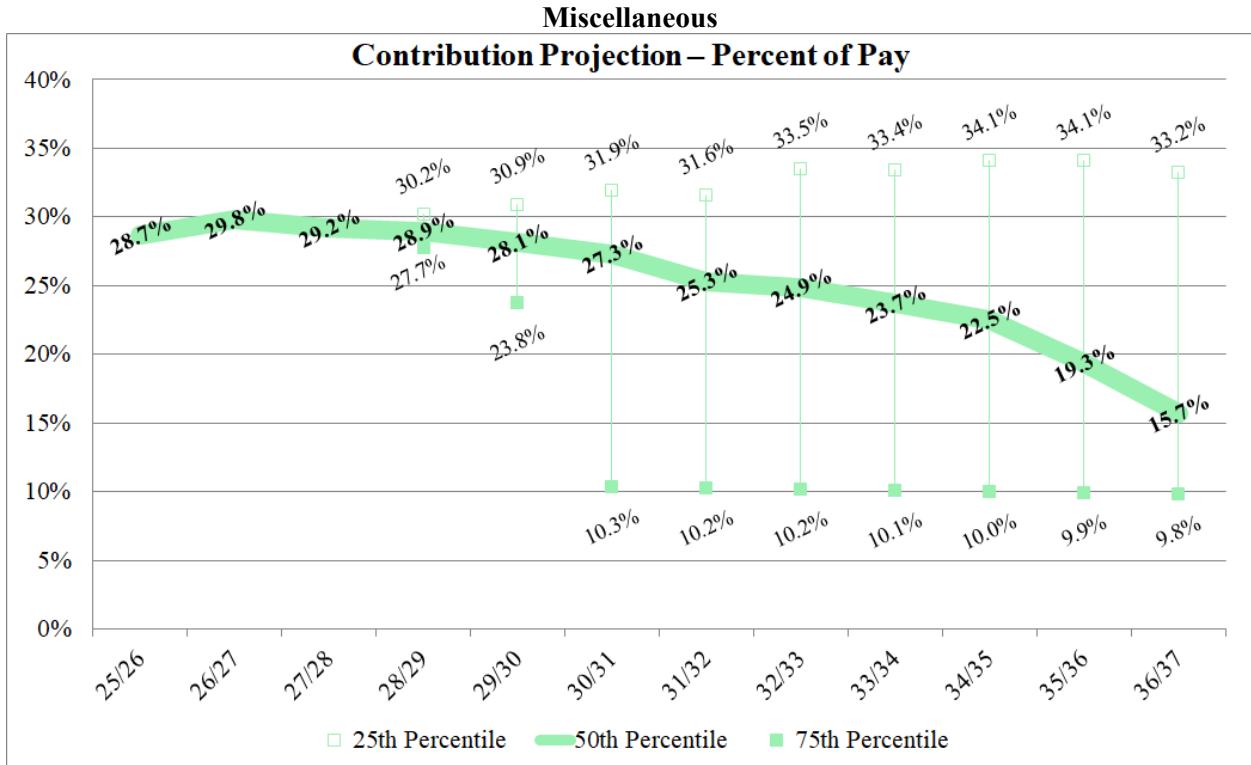
⁵ Nth percentile means N percentage of our trials result in returns lower than the indicated rates.



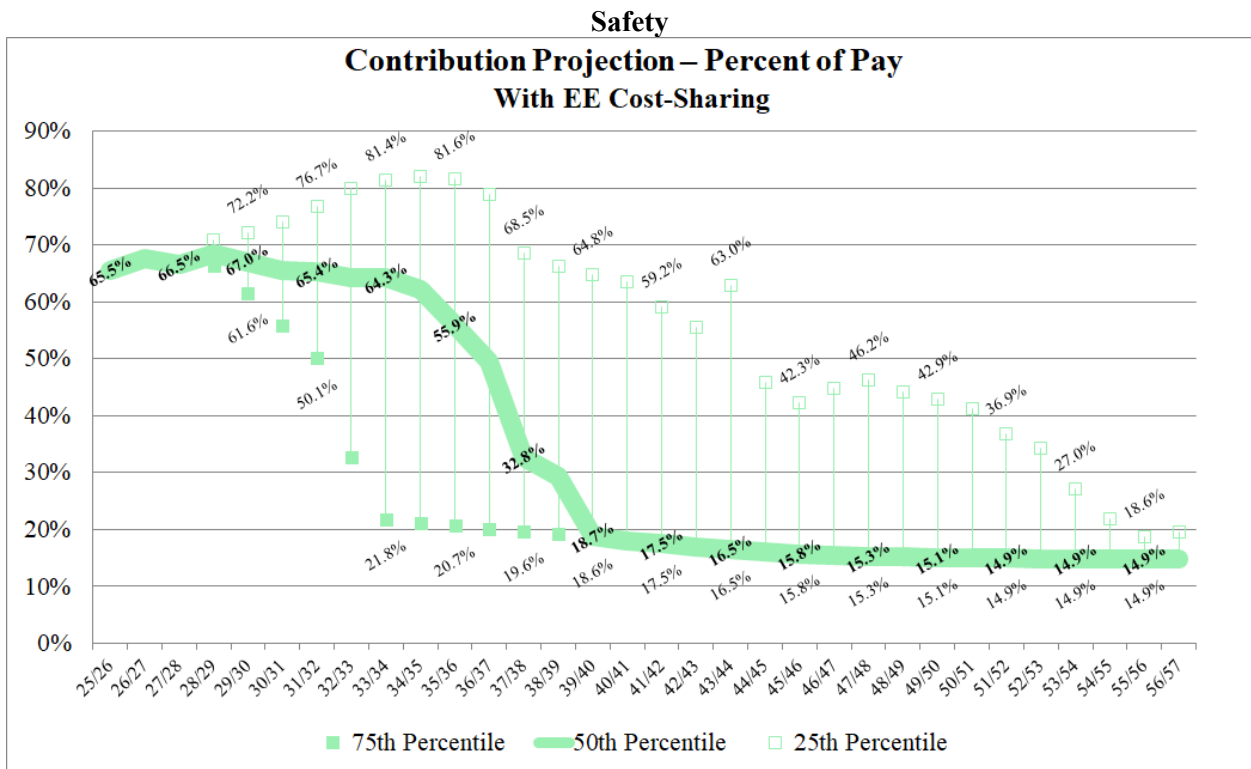
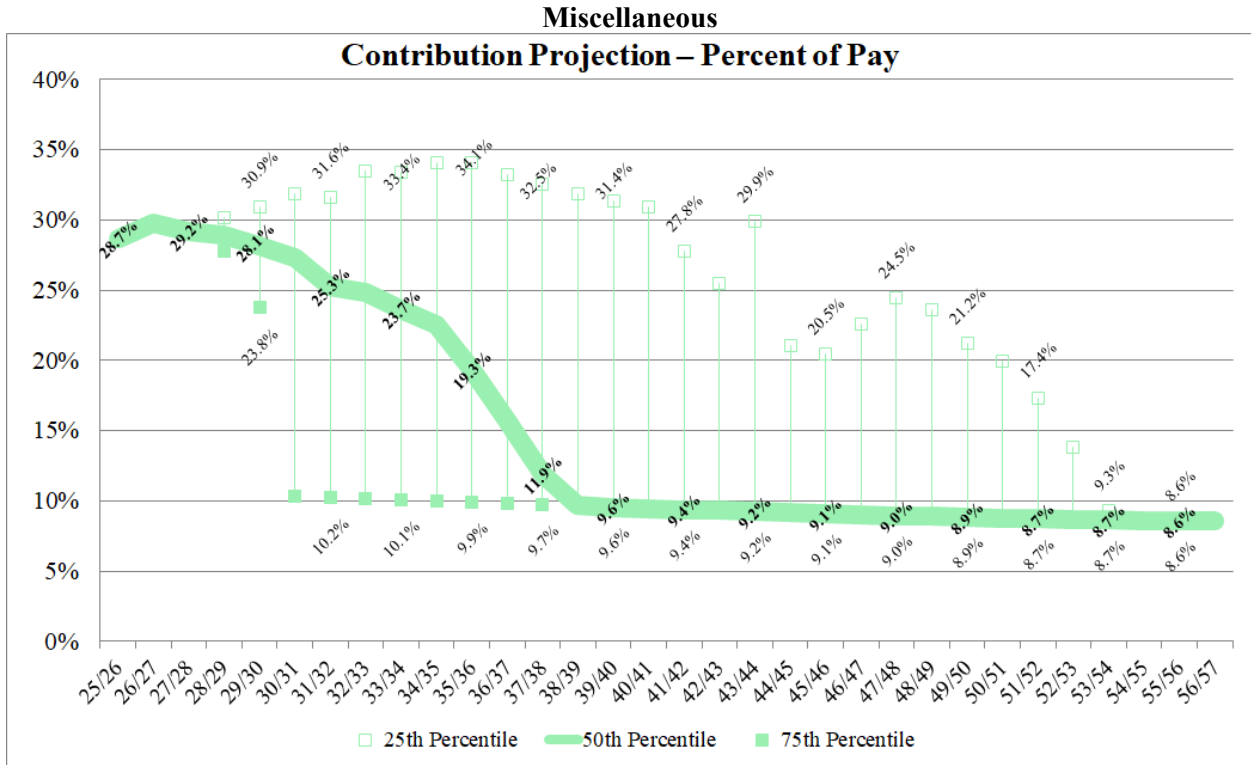
CONTRIBUTION PROJECTION



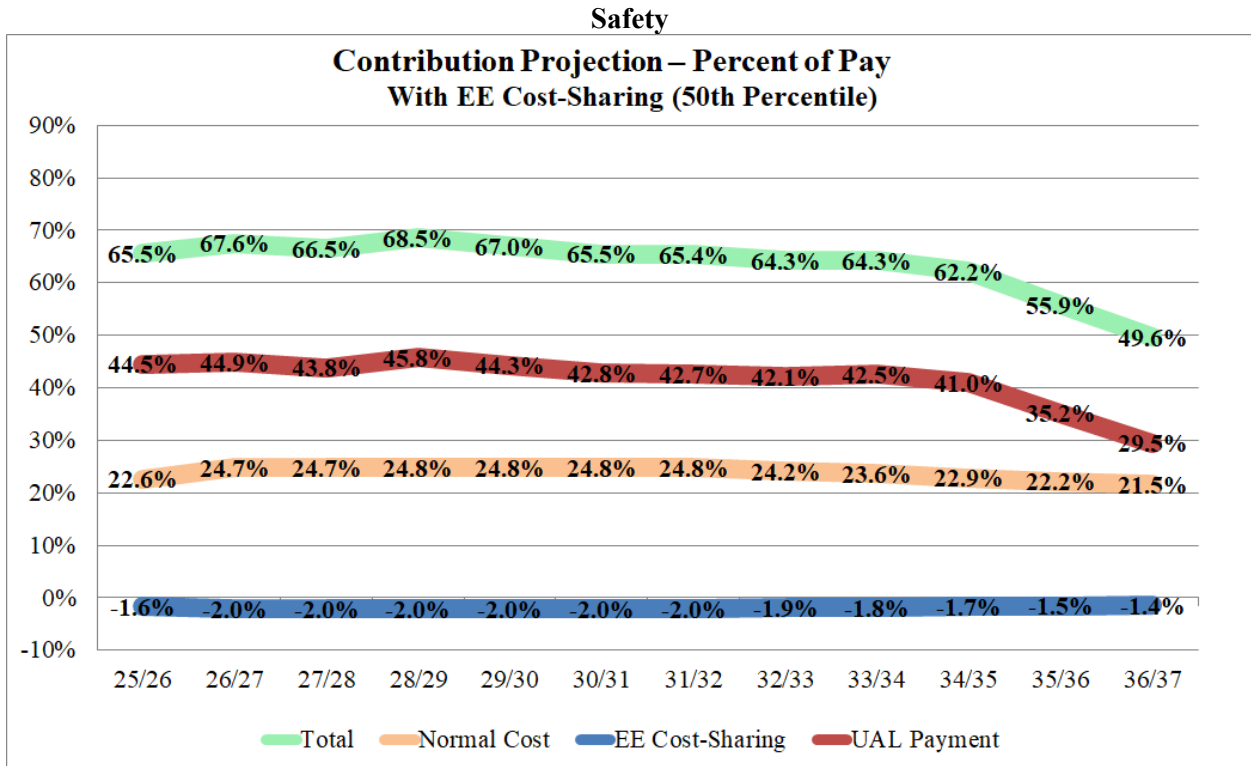
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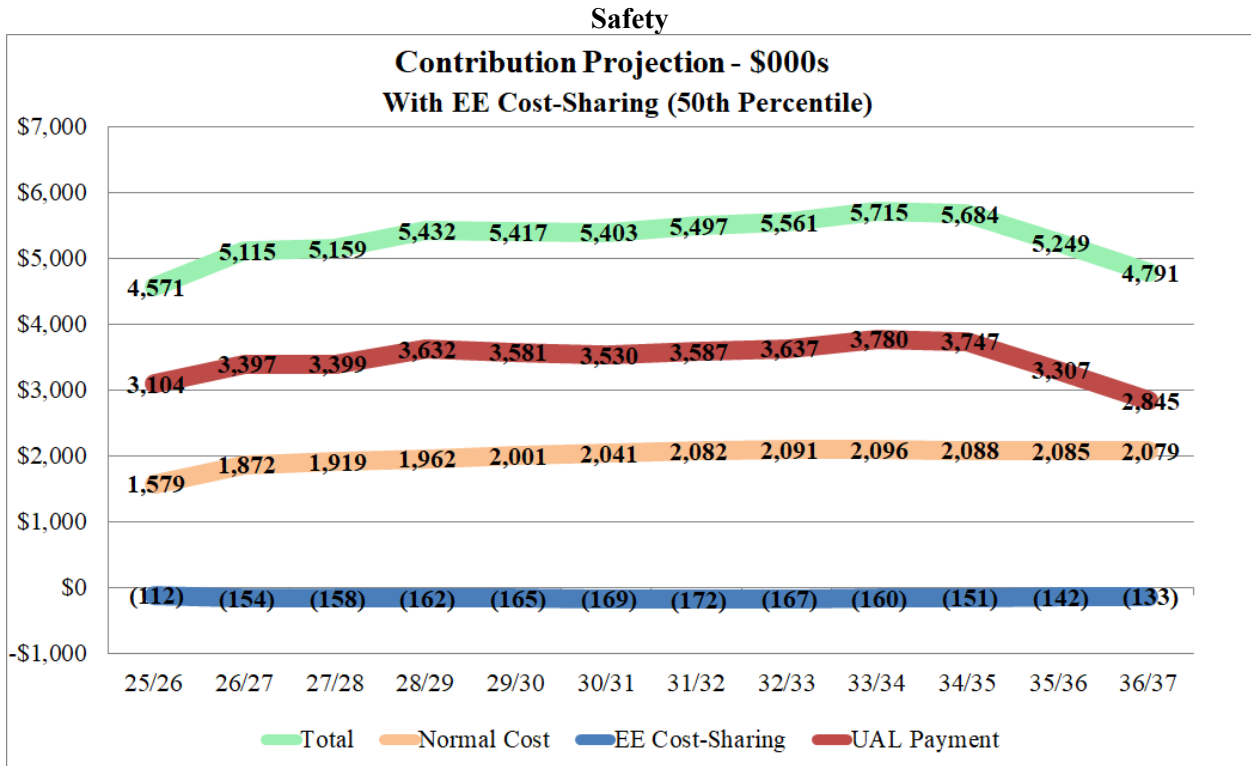
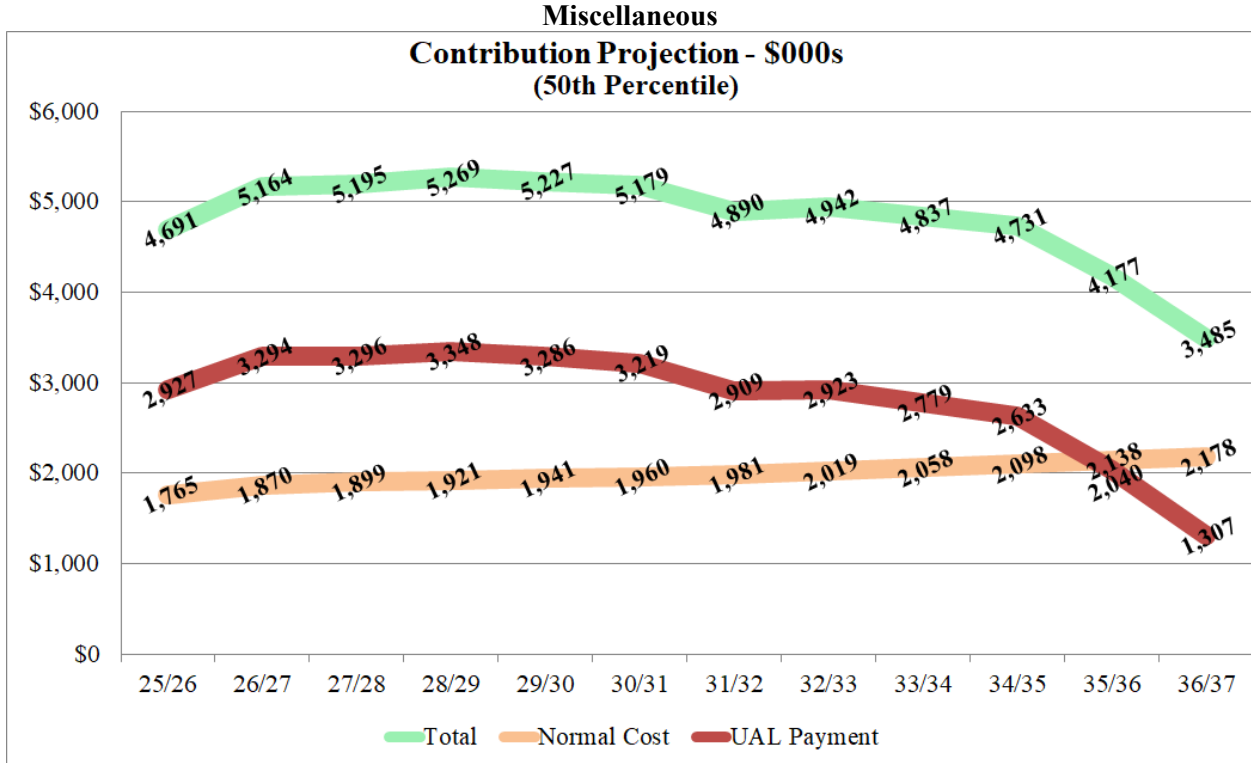
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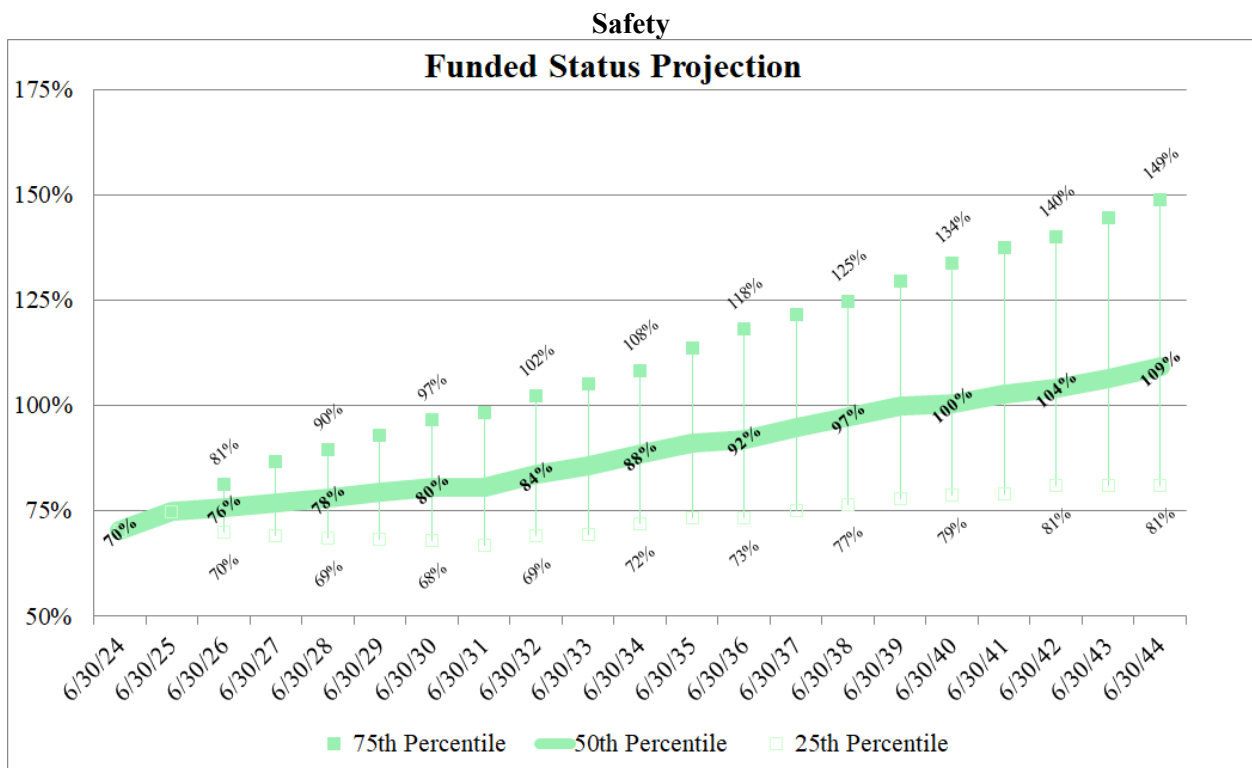
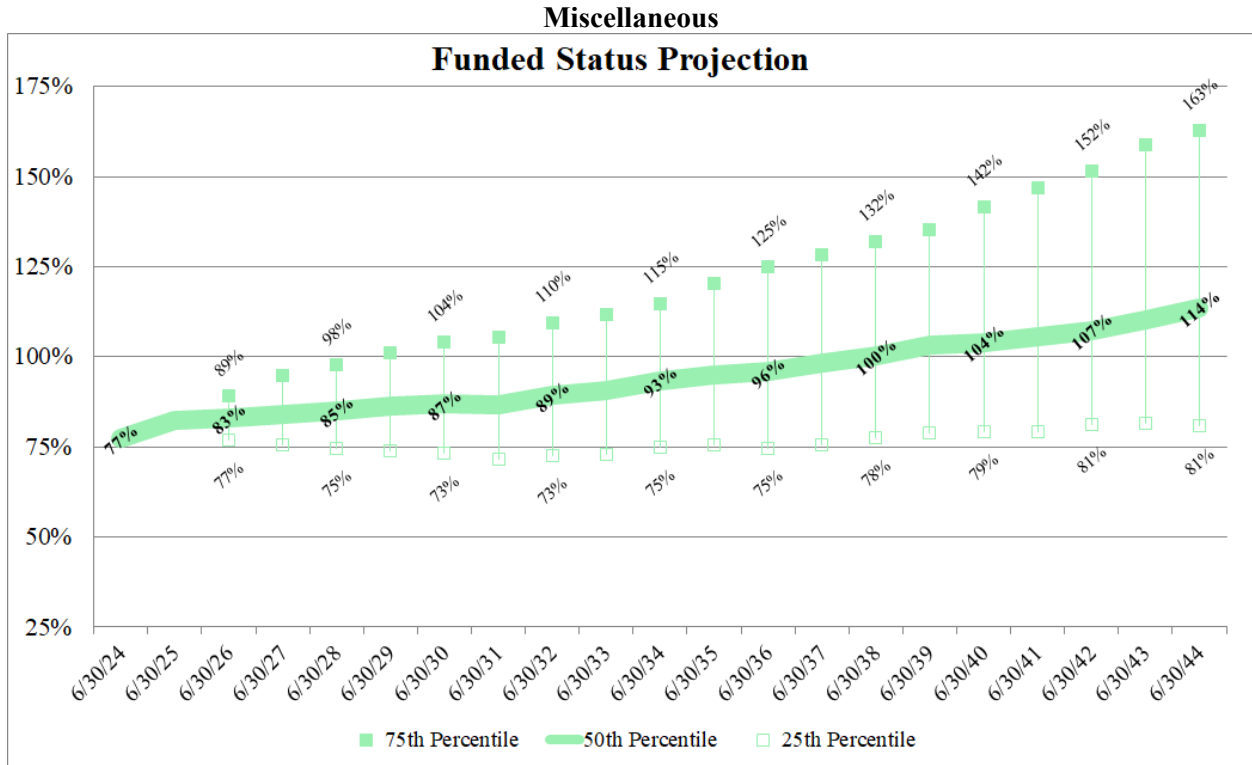
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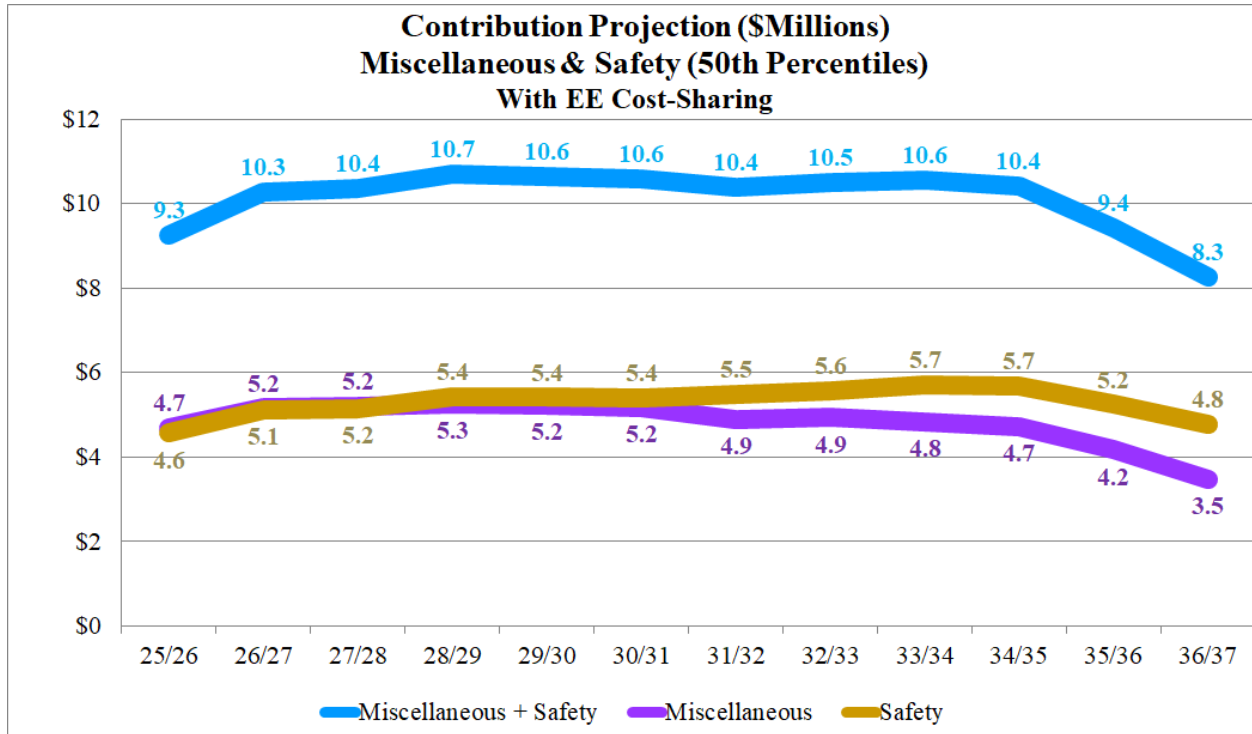
CONTRIBUTION PROJECTION



FUNDED STATUS



COMBINED MISCELLANEOUS AND SAFETY



**Miscellaneous and Safety
Funded Status Summary on June 30, 2024
(Amounts in \$Millions)**

	Miscellaneous	Safety	Total
■ AAL	\$137.2	\$121.2	\$258.4
■ Assets	<u>106.0</u>	<u>85.2</u>	<u>191.2</u>
■ Unfunded AAL	31.2	36.0	67.2
■ Funded Ratio	77.2%	70.3%	74.0%

**Miscellaneous and Safety
Funded Status Summary on June 30, 2025⁶
(Amounts in \$Millions)**

	Miscellaneous	Safety	Total
■ AAL	\$141.3	\$125.0	\$266.3
■ Assets	<u>116.4</u>	<u>93.7</u>	<u>210.1</u>
■ Unfunded AAL	24.9	31.3	56.2
■ Funded Ratio	82.4%	75.0%	78.9%

⁶ Projected 2025 assets reflect 12.1% investment return for 2024/25.



LEAVING CALPERS

- Participation in CalPERS is governed by State law and CalPERS rules
- The following are considered “withdrawing” from CalPERS:
 - Exclude new hires from CalPERS & giving them a different pension
 - Stop accruing benefits for current employees
- “Withdrawal” from CalPERS:
 - Treated as plan termination
 - Liability increased for conservative investments
 - Liability increased for future demographic fluctuations
 - Liability must be funded immediately by withdrawing agency
 - Otherwise, retiree benefits are cut

CalPERS Termination Estimates on June 30, 2024 (Amounts in Millions)

	Ongoing Plan	Termination Basis	
Discount Rate	6.80%	3.61%	5.61%
	Miscellaneous		
Actuarial Accrued Liability	\$137.2	\$200.5	\$153.2
Assets	<u>106.0</u>	<u>106.0</u>	<u>106.0</u>
Unfunded AAL (UAAL)	31.2	94.5	47.2
	Safety		
Actuarial Accrued Liability	\$ 121.2	\$188.8	\$141.2
Assets	<u>85.2</u>	<u>85.2</u>	<u>85.2</u>
Unfunded AAL (UAAL)	36.0	103.6	56.0
	Total		
Unfunded AAL (UAAL)	67.2	198.1	103.2
Funded Ratio	74.0%	49.1%	64.9%



PEPRA COST SHARING

- Target of 50% of total normal cost paid by all employees
- PEPRA members must pay greater of 50% of total normal cost or bargained amount if higher
- Employer cannot pay any part of PEPRA member required employee contributions
- Employer may impose current employees pay 50% of total normal cost (limited to 8% of pay for Miscellaneous and 12% for Safety) if not agreed through collective bargaining

■ Miscellaneous Plan 2026/27:

	Classic Members		New Members
	Tier 1	Tier 2	PEPRA
	2.5% <u>@55</u> FAC1	2% <u>@60</u> FAC3	2% <u>@62</u> FAC3
• Employer Normal Cost	13.2%	14.6%	8.49%
• Member Normal Cost	<u>8.0%</u>	<u>7.0%</u>	<u>7.75%</u>
• Total Normal Cost	21.2%	21.6%	16.24%
• 50% Target	10.6%	10.8%	8.12%

■ Safety Plan 2026/27:

	Classic Members	New Members
	Tier 1	PEPRA
	3% <u>@50</u> FAC1	2.7% <u>@57</u> FAC3
• Employer Normal Cost	29.4%	14.86%
• Member Normal Cost	<u>9.0%</u>	<u>14.50%</u>
• Total Normal Cost	38.4%	29.36%
• 50% Target	19.2%	14.68%

■ PEPRA Member Contributions:

	2025/26			2026/27		
Group	Total NC (Basis)	Member Rate	Total Normal Cost	Change	Member Rate	Method
Miscellaneous	15.59%	7.75%	16.24%	0.65%	7.75%	PEPRA Members
Safety	29.00%	14.50%	29.36%	0.36%	14.50%	PEPRA Members



PAYING DOWN THE UAL & RATE STABILIZATION

- Where do you get the money from?
- How do you use the money?

Where do you get the money from?

- POB:
 - Usually thought of as interest arbitrage between expected earnings and rate paid on POB
 - No guaranteed savings
 - PEPRA prevents contributions from dropping below normal cost
 - Savings offset when investment return is good
 - GFOA Advisory
- Borrow from General Fund similar to State
- One time payments
 - Governing body resolution to use a portion of one time money, e.g.
 - 1/3 to one time projects
 - 1/3 to replenish reserves and
 - 1/3 to pay down unfunded liability



PAYING DOWN THE UAL & RATE STABILIZATION

Additional payments to CalPERS:

- Internal Service Fund
 - Typically used for rate stabilization
 - Restricted investments:
 - Likely low (0.5%-1.0%) investment returns
 - Short term/high quality, designed for preservation of principal
 - Assets can be used by governing body for other purposes
 - Does not reduce Unfunded Liability
- Make payments directly to CalPERS:
 - Likely best long-term investment return
 - Must be considered an irrevocable decision
 - Extra payments cannot be used as future “credit”
 - PEPPRA prevents contributions from dropping below normal cost
 - Option #1: Request shorter amortization period (Fresh Start):
 - Higher short term payments
 - Less interest and lower long term payments
 - Likely cannot revert to old amortization schedule
 - Savings offset when investment return is good (PEPPRA)
 - Option #2: Target specific amortization bases with an Additional Discretionary Payment “ADP”:
 - Extra contribution’s impact muted by reduced future contributions
 - CalPERS can’t track the “would have been” contribution
 - No guaranteed savings
 - Larger asset pool means larger loss (or gain) opportunity
 - Paying off shorter amortization bases: larger contribution savings over shorter period:
 - e.g. 10 year base reduces contribution 13.6¢ for \$1 (level dollar)
 - Less interest savings vs paying off longer amortization bases
 - Paying off longer amortization bases: smaller contribution savings over longer period:
 - e.g. 25 year base reduces contribution 8.2¢ for \$1 (level dollar)
 - More interest savings vs paying off shorter amortization bases
 - Maintaining the current payment schedule – not letting payments reduce due to extra payment – gives the greatest long-term savings



PAYING DOWN THE UAL & RATE STABILIZATION

Irrevocable Supplemental (§115) Pension Trust:

- Can only be used to:
 - Reimburse Town for CalPERS contributions
 - Make payments directly to CalPERS
- Investments significantly less restricted than Town investment funds
 - Fiduciary rules govern Trust investments
 - Usually, designed for long term returns
- Assets don't count for GASB accounting
 - Are considered Employer assets
- Hundreds of trusts established, mostly since 2015
 - Trust providers: PARS, PFM, Keenan
 - California Employers' Pension Prefunding Trust (CEPPT) effective July 2019
 - Strategy 1: 48% stocks / 52% bonds
 - Strategy 2: 22% stocks / 78% bonds
- More flexibility than paying CalPERS directly
 - Town decides if and when and how much money to put into Trust
 - Town decides if and when and how much to withdraw to pay CalPERS or reimburse Town
- Funding strategies typically focus on:
 - Reducing the unfunded liability
 - Fund enough to make total CalPERS UAL = 0
 - Make PEPPRA required payments from Trust when overfunded
 - Stabilizing contribution rates
 - Mitigate expected contribution rates to better manage budget
 - Combination
 - Use funds for rate stabilization/budget predictability
 - Target increasing fund balance to pay off UAL sooner
- Consider:
 - How much can you put into Trust?
 - Initial seed money?
 - Additional amounts in future years?
 - When do you take money out?
 - Target budget rate?
 - Year target budget rate kicks in?
 - Before or after CalPERS rate exceeds budgeted rate?

■ Supplemental Trust

- Flexible
- Likely lower long-term return
- Investment strategy choice
- Does not reduce net pension liability for GASB reporting
- More visible

■ CalPERS

- Locked In
- Likely higher long-term return
- No investment choice
- Reduces net pension liability for GASB reporting
- More restricted



PREFUNDING OPTIONS

Town's Section 115 Trust

	Miscellaneous	Police Safety
12/31/25 Trust Balance ⁷		\$3,234,000
Projected Balance 6/30/26 ⁸	\$ 1,778,000	\$ 2,237,000
Assumed Future Trust Earnings		5.0%

Miscellaneous Direct Payment of \$1.778M⁹ 6/30/26 to CalPERS

- Shortest Bases: 2007 Benefit Change (2 years remaining) and 2009 Assumption Change (5 years remaining)
or
- Longest Bases: 2013 Loss (19 years remaining)

	Estimated Interest Savings	2026/27 Contribution Impact
Shortest Bases		
\$ Savings (\$000's)	\$ 267	\$(533)
Present value savings @ 3% (\$000's)	140	
Longest Bases		
\$ Savings (\$000's)	\$1,315	\$(144)
Present value savings @ 3% (\$000's)	602	

Safety Direct Payment of \$2.237M⁹ 6/30/26 to CalPERS

- Shortest Bases: 2014 Assumption Change (10 years remaining)
or
- Longest Bases: 2017 & 2018 Non-Asset Loss (23 & 24 years remaining, respectively) and 2016 Asset Loss (22 years remaining)

	Estimated Interest Savings	2026/27 Contribution Impact
Shortest Bases		
\$ Savings (\$000's)	\$ 691	\$(330)
Present value savings @ 3% (\$000's)	349	
Longest Bases		
\$ Savings (\$000's)	\$2,030	\$(160)
Present value savings @ 3% (\$000's)	902	

⁷ Approximate 21% Equity/79% Fixed income asset allocation trust with CEPPT.

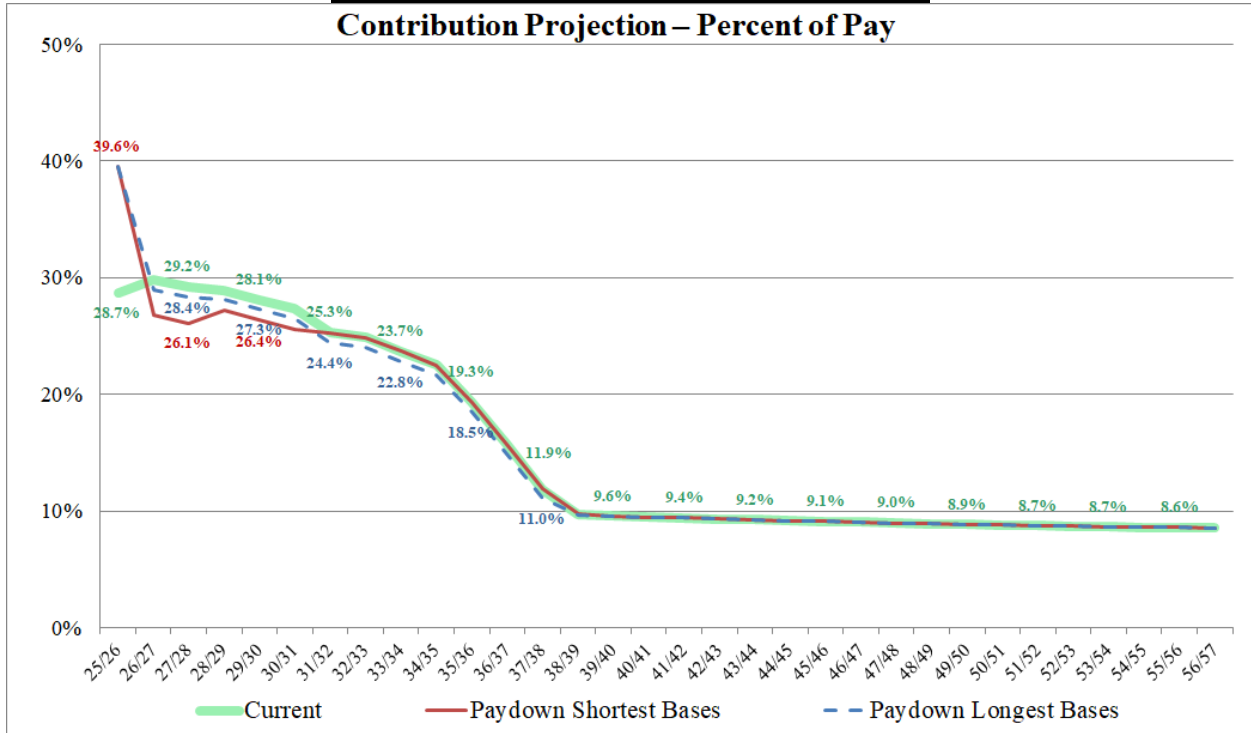
⁸ Approximate 21% Equity/79% Fixed income asset allocation trust with CEPPT.

⁹ \$4.015M projected trust balance allocated to Miscellaneous and Safety by UAL.

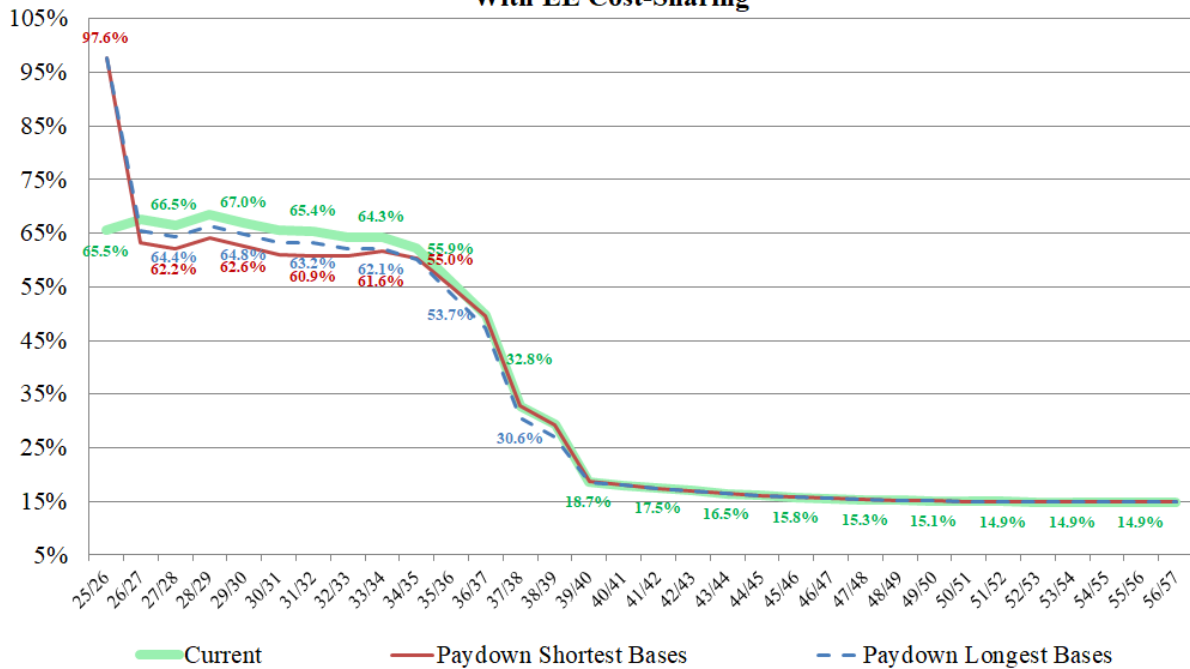


PREFUNDING OPTIONS

Miscellaneous
Direct Payment of \$1.778M 6/30/26 to CalPERS
Contribution Projection – Percent of Pay

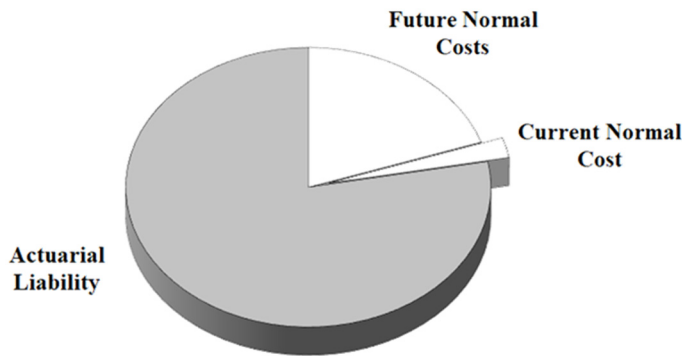


Safety
Direct Payment of \$2.237M 6/30/26 to CalPERS
Contribution Projection – Percent of Pay
With EE Cost-Sharing



DEFINITIONS

Present Value of Benefits
June 30, 2024



■ **PVB - Present Value of all Projected Benefits:**

- The value now of amounts due to be paid in the future
- Discounted value (at valuation date - 6/30/24), of all future expected benefit payments based on various (actuarial) assumptions

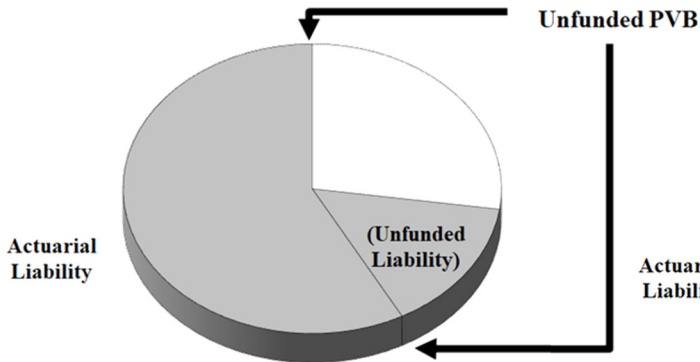
■ **Current Normal Cost (NC):**

- Portion of PVB allocated to (or “earned” during) current year
- Value of employee and employer current service benefit

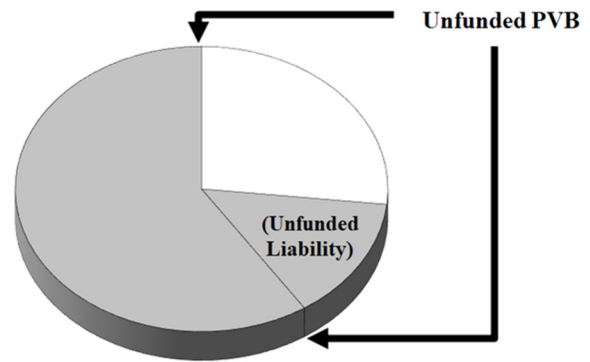
■ **Actuarial Liability (AAL):**

- Discounted value (at valuation date) of benefits earned through valuation date [value of past service benefit]
- Portion of PVB “earned” at measurement

Present Value of Benefits
June 30, 2023



Present Value of Benefits
June 30, 2024



■ **Target** - Have money in the bank to cover Actuarial Liability (past service)

■ **Unfunded Liability (UAAL or UAL)** - Money short of target at valuation date

- If all actuarial assumptions were always exactly met, then the plan assets would always equal AAL
- Any difference is the unfunded (or overfunded) AAL
- Every year, the actuary calculates the difference between the expected UAAL and Actual UAAL. This is a new layer or amortization base
- Each new layer gets amortized (paid off) over a period of time as part of the contribution [rate]



HOW WE GOT HERE

Significant Factors

- Investment Losses
- CalPERS Contribution Policy
- Enhanced Benefits
- Demographics

Old Contribution Policy

- Effective with 2003 valuations:
 - Slow (15 year) recognition of investment losses into funded status
 - Rolling 30 year amortization of all (primarily investment) losses
- Designed to:
 - First smooth rates and
 - Second pay off UAL
- Mitigated contribution volatility

CalPERS Changes

- April 2013: CalPERS adopted new contribution policy
 - No asset smoothing or rolling amortization
- February 2018: New amortization policy for 2021/22 contributions
 - Fixed dollar (level) 20-year amortization rather than % pay (escalating)
 - 5-year ramp up (not down) for investment gains and losses
- CalPERS Board changed the discount rate to 7%, still phasing in to rates:

	Rate	Initial Impact	Full Impact
• 6/30/16 valuation	7.375%	18/19	22/23
• 6/30/17 valuation	7.25%	19/20	23/24
• 6/30/18 valuation	7.00%	20/21	24/25

- In the November 2021 meeting, CalPERS Board adopted
 - Discount rate and investment allocation
 - Discount rate: 6.8% for 6/30/2021. UAL impact matches investment gain amortization (5-year ramp-up). Initial impact in 23/24 and full impact in 27/28.
 - Asset allocation has higher investment risk than current portfolio
 - Experience study (Demographic assumptions)



ADDITIONAL ASSUMPTIONS & METHODS

- Retiree benefit payments increase at 4% for stand-alone Miscellaneous plan and 3% for pooled Safety plan
- Tiers 1, 2, and current PEPRA members' payroll increase/decrease after 2031/32 according to similar large client projected payroll using same mortality, retirement, withdrawal, and disability assumptions as CalPERS 2000-2019 Experience Study
- PEPRA payroll added to above projected payroll to make aggregate payroll increase at CalPERS' assumption of 2.8% after 2031/32
- All other assumptions same as CalPERS valuation assumptions





TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 05/11/2026

ITEM NO: 6

Item 6.

DATE: May 7, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Continue to Review, Discuss, and Make Recommendations on the Preliminary Proposed FY 2026-27 Operating and Capital Budget

RECOMMENDATION:

1. Continue to discuss, comment, and finalize recommendations to the Town Council regarding the Proposed FY 2026-27 Operating and Capital Summary Budget.
2. Provide final written recommendations on the proposed use of Measure G funds.

FISCAL IMPACT:

There is no direct fiscal impact from the Finance Commission’s review and recommendation action. However, the recommendations under discussion may affect the FY 2026-27 Operating and Capital Budget, including the proposed use of Measure G funds, Internal Service Fund charges, CalPERS Additional Discretionary Payments, and related General Fund impacts. Any budget changes recommended by the Finance Commission will be considered by staff, and if recommended, would require Town Council approval through the budget adoption process.

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 state that:

(a) The Finance Commission shall:

- (2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code and provide written comments and recommendations to the Town Council.

PREPARED BY: Kristina Alfaro
Administrative Services Director

Reviewed by: Town Manager and Town Attorney

PAGE 2 OF 5

SUBJECT: Proposed FY 2026-27 Operating and Capital Budget

DATE: May 4, 2026

- (A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of approval of the budget conditional upon the Town Council's acceptance of one or more of the Finance Commission's recommendations.
- (B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

DISCUSSION:

On April 20, 2026, the Proposed FY 2026-27 Operating and Capital Budgets were posted to the Town's website, and the links (listed below) were provided to the Finance Commission. Per Measure A, the Finance Commission received the Proposed Budgets 21 business days before May 19, 2026, the first meeting at which the Town Council will consider the Proposed Budgets.

Proposed Operating Budget:

<https://www.losgatosca.gov/3067/Proposed-FY-2026-27-Operating-Budget>

CIP Budget:

<https://www.losgatosca.gov/3068/Proposed-FY-2026-27-Capital-Budget>

Pursuant to Municipal Code Section 2.50.225(a)(6), the Finance Commission shall review proposed expenditures and advise the Town Council whether such expenditures meet the Town Council's objective for the Measure G tax. In the FY 2026-27, all Measure G proceeds are allocated to support public safety operations. This approach supports the following Measure G objectives: (a) maintaining and enhancing neighborhood police patrols and local crime prevention programs, and (d) maintaining the Town's long-term financial stability. Staff requests the Finance Commission's review and recommendation regarding the proposed allocation of Measure G funds.

At its special meeting on April 27, 2026, the Finance Commission received a comprehensive review of the operating and capital budget, and the Commission identified two areas requiring additional information and one recommendation for the Commission's consideration. The Commission requested additional information on historic overtime costs and how changes to the fixed asset policy have impacted Town finances. A recommendation was made to consider adding resources for capital project management. Additional information was requested on overtime and changes to the fixed asset policy.

The May 4, 2026, Finance Commission staff report included the additional information that was requested at the April 27th meeting. Additionally, prior to and at the May 4th Commission meeting, more information was requested of staff. Any information request received before the

meeting was provided as a desk item to the commission. At the May 4th meeting, the Commission requested a breakdown of salary increases to include both the costs of cost-of-living adjustments and step/merit increases broken out separately and to account for the \$2.8 million variance shown on page C-26 of the proposed budget document. Additionally, the Commission requested information on the timing of payments to CalPERS, and when the Town’s rates would be impacted and the final day to make a payment to have it count in a specified fiscal year.

Comparison of Salary Cost FY 2025-26 Estimate to FY 2026-27 Proposed

Salary and benefits variance are shown in two different ways when comparing the estimate to the proposed. On page C-9, both values for salaries show them net of salary savings. This provides an apple to apple comparison.

Salary and Benefit Categories	FY 2025-26 Estimate ¹	FY 2026-27 Proposed	Variance	% Variance
Salaries	\$23,405,209	\$24,176,333	\$771,124	3.3%
Overtime	1,384,604	1,457,000	72,396	5.2%
CalPERS	8,790,604	10,410,788	1,620,184	18.4%
All Other Benefits	5,349,271	6,294,481	945,210	17.7%
TOTAL ALL SALARY & BENEFITS	\$38,929,688	42,338,602	3,408,914	8.8%
<i>Source: Page C-9 of FY 2026-27 Proposed Budget</i>				
¹ All Estimate values have been updated to include vacancy savings for each category				

In this view, salaries increase by \$771,124 or 3.3% in FY 2026-27. Below is a breakdown of that increase based on step/merit progression as shown in each salary table for each employee group on the Town’s website.

Salary Increase Breakdown		\$
		Amounts
Cost of Living Adjustments		\$613,393
Step Progression		\$157,731
TOTAL		\$771,124

On page C-26, which looks at the General Fund forecast in millions. Salary savings are removed only from the FY 2025-26 Estimate view and remain for the FY 2026-27 Proposed. This results in salary costs increasing by \$2.8 million.

Salary and Benefit Categories	FY 2025-26 Estimate ¹	FY 2026-27 Proposed	Variance	% Variance
Salaries	\$ 23.4	\$ 26.2	\$ 2.8	12.0%
Overtime	1.4	1.5	0.1	7.1%
CalPERS	8.8	10.4	1.6	18.2%
All Other Benefits	5.3	6.3	1.0	18.9%
Salary Savings	-	(2.0)	(2.0)	N/A
TOTAL ALL SALARY & BENEFITS	\$ 38.9	\$ 42.4	\$ 3.5	9.0%

Source: Page C-26 of FY 2026-27 Proposed Budget

¹ In this view salary savings are broken out as its own line item only for FY 2026-27, but in FY 2025-26 Estimate is broken out into each respective category.

The Finance Commission asked staff to break down these costs further. As you can see from the table below, the largest variance between the two is how vacancy savings are shown.

Salary Increase Breakdown	\$ Amounts (in millions)
Cost of Living Adjustments	\$0.6
Step Progression	\$.2
Vacancy Savings	\$2.0
TOTAL	\$2.8

Potential Impacts of Reduced Internal Service Fund Charges

Other draft recommendations included a reduction of Internal Service Fund charges by \$1.5 million in the vehicle and equipment replacement fund. Staff completed additional analysis to ensure this would not result in creating or increasing an unfunded liability for the future replacement purchases of these items. Staff believed that although this recommendation would result in an overall decrease, estimated FY 2026-27 year-end retained earnings in the fund that it would not result in unfunded liability (Attachment 1). Staff recommends that the savings garnered from this recommendation be used to increase charges for facilities and increase the retained earnings in that fund by about \$1 million, ensuring that the General Fund is balanced. Staff will present potential funding options for these dollars as a desk item for the May 11, 2026, Finance Commission Meeting.

Additional CalPERS Additional Discretionary Payment Information

Due to CalPERS valuation being about two years in arrears, the FY 2026-27 rates are set based on an actuarial valuation date of 6/30/2024. Payment made in FY 2026-27 would impact rates for FY 2028-29. This is because rates for FY 2028-29 are set based an actuarial valuation date of 6/30/2027. The last day to make a payment would be on or before June 30 of the fiscal year.

PAGE 5 OF 5

SUBJECT: Proposed FY 2026-27 Operating and Capital Budget

DATE: May 4, 2026

This information was gathered via phone call from a CalPERS representative and discussion with Foster and Foster, the Town's pension actuary.

The Commission also had various draft recommendations that were sent to the Administrative Services Director and have been attached (Attachment 2) for the Commission's discussion, finalization and vote.

This meeting will conclude the Commission's discussion on the FY 2026-27 Operating and Capital Budget. The FY 2026-27 Proposed Budget Study Session is set for May 19, 2026, and the Final Budget Hearing and Adoption is set for June 2, 2026.

CONCLUSION:

Staff looks forward to the Commission's questions, discussion, comments, and recommendations.

Attachments:

1. Impacts on the Vehicle and Equipment Replacement Fund
2. Draft Commission Recommendations
3. CIP Commissioner Comments

IMPACTS TO THE VEHICLE AND EQUIPMENT REPLACEMENT AND FACILITES INTERNAL SERVICE FUNDS

Vehicle and Equipment Replacement Fund

The table below shows the impacts to annual charges and fund balance due to the draft recommendation to reduced internal service fund charges to the Vehicle and Equipment Replacement Fund in FY 2026-27 by \$1.5 million. As shown in the table below, even with reduced funding, ending cash balance or retained earnings remain at an average amount of \$4.3 million and charges to department are normalized to \$1.6 million annually.

You can also note that expenses vary each year depending on the vehicles and equipment that are projected to be replaced. Large projected expenses in FY 2027-28 (FY 2028) are due the anticipated completion of the vehicle and equipment audit and the replacement of several vehicles and equipment that have been deferred for last few years.

Categories	Estimate	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected	Projected
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	FY 2036
Beg cash balance	3,893,502	4,861,460	5,202,577	3,107,326	3,927,383	3,537,270	4,002,027	4,742,209	5,114,190	4,927,324	4,664,141
Revenues	1,187,544	679,960	1,591,333	1,591,333	1,591,333	1,591,333	1,591,333	1,591,333	1,591,333	1,591,333	1,591,333
Expenses	219,586	338,843	3,686,584	771,276	1,981,446	1,126,577	851,151	1,219,353	1,778,199	1,854,517	2,105,447
Ending cash balance	4,861,460	5,202,577	3,107,326	3,927,383	3,537,270	4,002,027	4,742,209	5,114,190	4,927,324	4,664,141	4,150,027

The appropriate fund balance level for this and all ISF’s will be reviewed in FY 2026-27, with any recommended changes being made as part of the FY 2027-28 Proposed Budget. Further, the Town will be conducting a vehicle and equipment fleet audit which may result in changes to the fleet. As a result, these changes will be considered in revising the ISF Equipment schedule and may further refine the resources necessary to cover future expenses.

Facilities Fund

The facilities fund has historically been fully funded with charges for services equaling expenses in this fund. Over the years this fund has retained earnings of \$822,019 due to actual expenses coming under budget. Staff are recommending that if Vehicle and Replacement Fund charges are reduced that \$922,500 of those reduced charges be added to the facilities fund. This additional funding would be used for various repairs as identified in facilities assessments for various town buildings.

The current facility assessments, escalated to 2024 dollars, show \$3.4 million and \$3.3 million annual needs for 2025-26 and 2026-27, respectively. Future annual needs are in the range of \$1.4 million to a high of \$2 million for 2027-28 through 2031-32. Clearly, deferred maintenance has been delayed and continues to be the case due to lack of resources. The additional of the \$922,500 is helpful to increase the fund balance to \$1.75 million, but it is still significantly below the projected need.

Impact of Internal Service Fund Charges Changes

Should Council approve the recommendation to reallocate Internal Service Fund charges. The net impact to the General Fund would be a reduction in expenses of \$579,027, resulting in a FY 2026-27 General Fund budget with a minor surplus of \$29,705.

DRAFT MOTIONS RECEIVED

Draft Motion #1: 115 Pension Trust

I move that the Finance Commission recommend that the Town Council direct staff in June 2026 to use the full current balance of the Town's Pension Section 115 Trust, estimated at approximately \$3.8 million, subject to staff verification, to make one or more Additional Discretionary Payments to CalPERS for the purpose of reducing the Town's unfunded accrued pension liabilities.

The Commission further recommends that this payment not be allocated mechanically or pro rata across all unfunded liabilities, but instead be targeted, in consultation with the Town's actuary and CalPERS as appropriate to the amortization bases, plans, or unfunded commitments where the payment is expected to produce the greatest fiscal benefit to the Town.

In determining the allocation of the ADP, staff should evaluate, at minimum:

- the projected reduction in total UAL principal;
- the net present value of avoided future UAL payments;
- the reduction in future required employer contributions;
- the impact on contribution volatility across the Safety and Miscellaneous plans;
- the shortening or elimination of higher-cost amortization bases; and
- the consistency of the payment with the Town's reserve, liquidity, and long-term financial policies.

The Finance Commission recommends that staff return to the Town Council with a concise implementation analysis before execution or as part of the Council action, including the recommended target allocation, projected annual savings, estimated net present value savings, impact on future CalPERS contribution schedules, and confirmation that use of the Pension 115 Trust balance does not impair the Town's operating reserves or near-term fiscal flexibility.

Draft Motion #1a:

Background

The Pension 115 Trust provides valuable fiscal flexibility, but flexibility has value only if it is governed by a clear policy. The Town should not treat all available reserves and surplus funds the same. Some funds are needed for near-term operations, legally restricted purposes, adopted reserves, or capital commitments. Some funds should be preserved for plausible

adverse scenarios identified through the Town's Asset Liability Management work. Other funds may be genuinely excess to the Town's current and reasonably foreseeable needs.

Once funds are identified as available beyond near-term needs, adopted reserve policies, legal restrictions, capital plans, and stress scenarios, the Town should have a disciplined process for determining whether those funds can be put to better use by reducing CalPERS unfunded accrued liabilities. A clearer framework for categorizing available resources would preserve fiscal resilience while reducing the risk that the Town carries avoidable pension costs simply because it has not adopted a formal definition of deployable surplus.

I move that the Finance Commission recommend that the Town Council direct staff, as part of the Town's Asset Liability Management work stream and long-term financial planning process, to reassess the Town's policy for use of the Pension Section 115 Trust and broader available reserves.

The Commission recommends that this reassessment be grounded in two principles: first, that the Town should preserve appropriate fiscal flexibility; and second, that the Town should avoid unnecessarily retaining funds that could be used to reduce high-cost CalPERS unfunded pension liabilities.

To support this policy, the Commission recommends that the Town develop a formal framework that classifies available funds into three categories:

Bucket 1: Near-Term Required Funds

Funds needed for operating liquidity, adopted budget commitments, legally or contractually restricted purposes, emergency reserves, near-term capital needs, and other obligations that should remain readily available.

Bucket 2: Flexible Contingency and Scenario-Based Funds

Funds not immediately required, but prudently retained because they may be needed under reasonably foreseeable adverse scenarios, including recession, revenue shortfalls, capital cost escalation, litigation, disaster response, pension contribution increases, labor cost pressures, or other fiscal risks identified through the ALM process.

Bucket 3: Deployable Surplus Available for Pension Liability Reduction

Funds that are not required for near-term operations, are not legally restricted, are not needed to satisfy adopted reserve policies or capital plans, and are not needed under the Town's adopted stress scenarios. The Commission recommends that the Town formally define this third

category and establish a policy presumption that such funds should be evaluated for deployment to CalPERS through targeted Additional Discretionary Payments.

The Commission further recommends that staff evaluate whether Bucket 2 funds should remain in traditional liquid reserves, be invested according to their expected time horizon and liquidity needs, be held in the Pension 115 Trust where legally and fiscally appropriate, or be reserved for future pension-cost stabilization. Funds in Bucket 3 should be evaluated primarily against the expected fiscal benefit of reducing CalPERS UAL, including projected avoided interest costs, reduced future required contributions, improved funded status, and improved long-term budget resilience.

The Commission recommends that staff return to the Town Council with a proposed policy defining these three categories, the metrics used to identify deployable surplus, and an annual process for determining whether additional targeted ADPs to CalPERS are warranted.

Draft Motion #1b:

I move that the Finance Commission recommend that the Town Council direct staff in June 2026 to use the full current balance of the Town's Pension Section 115 Trust, estimated at approximately \$3.8 million, subject to staff verification, to make one or more Additional Discretionary Payments to CalPERS for the purpose of reducing the Town's unfunded accrued pension liabilities.

The Commission further recommends that this payment not be allocated mechanically or pro rata across all unfunded liabilities, but instead be targeted, in consultation with the Town's actuary and CalPERS as appropriate, to the amortization bases, plans, or unfunded commitments where the payment is expected to produce the greatest fiscal benefit to the Town.

In determining the allocation of the ADP, staff should evaluate, at minimum:

- the projected reduction in total UAL principal;
- the net present value of avoided future UAL payments;
- the reduction in future required employer contributions;
- the impact on contribution volatility across the Safety and Miscellaneous plans;
- the shortening or elimination of higher-cost amortization bases; and
- the consistency of the payment with the Town's reserve, liquidity, and long-term financial policies.

The Finance Commission recommends that staff return to the Town Council with a concise implementation analysis before execution or as part of the Council action, including the

recommended target allocation, projected annual savings, estimated net present value savings, impact on future CalPERS contribution schedules, and confirmation that use of the Pension 115 Trust balance does not impair the Town's operating reserves or near-term fiscal flexibility.

Draft Motion #2 : Vacancy Savings Factor and Monthly Reporting

Labor costs are the most significant expense category in the operating budget and effective methods to accurately plan, track and manage this expense category is critical. The Finance Commission recognizes efforts being made to better understand labor costs and believes these efforts should remain highest priority. Completing and maintaining monthly labor reporting that provides insight to each of the significant subcategories will allow the Town to identify variances from the intended plan and either take corrective action or utilize funds for other high priority items.

This planning and reporting should clearly delineate the following:

Labor hours/FTEs - the plan should be based on the intended to deployment of human capital to achieve the intended service level. This should include planned hires.

Direct Labor Dollars - the planned salary/wages that includes contract requirements and planned Step increases. The existing salary levels and planned salary levels for hires/vacancy replacements are one variable that should be well understood given the lack of flexibility for a significant portion of salary wage escalation. Hiring is one of the few avenues the Town has to affect the overall salary and wages costs.

Pension/benefits - the costs of these items should be broken out from salary/wages.

Overtime - the Finance Commission recognizes the need and at times the benefit of utilizing overtime as a tool to manage vacancies, emergencies and other events not part of normal business. However, it can be an expensive method to provide services and should be closely tracked and managed. Maintaining overtime tracking in context of the other labor costs sub categories will help control costs and provide insight to the relationships like vacancy and need for OT.

Several years ago the Town adopted a vacancy rate applied to labor to reflect the persistent trend of significantly under running labor budgets. This method was a stop gap method to allow expected under runs to be redeployed for other Town needs. The lack of insight to the actual FTE's being charged meant the planned headcount and actual headcount were not known until after the close of the budget year with a significant surplus. *The Commission believes this vacancy rate has served its purpose but the better method would be budget plans that include planned hires and tracking to those plans by monthly FTEs. As the Town implements those*

improved reporting methods we encourage a transition away from the brute force method of a vacancy rate to the real labor plan that supports the Town intended service levels. It is understood there will be unexpected vacancies throughout the years which will potentially result in temporary underruns - but by identifying those as variances on a monthly basis those variances will be understood and allow identification of trends or concerns to the Town. The decision to move away from a vacancy rate approach could be considered as the management tools are put into place and would improve the understanding and control of labor costs.

The above recommendations are a reflection of the good work that staff has accomplished and represents the next step forward in the ability to effectively plan and manage the largest cost category in Town Operating Expenses. As noted by staff, labor costs are expected to escalate at a higher rate than revenue so continuing to improve this expense category is appropriate.

Draft Motion # 3 : NHA Advisors Reports

Given the significance of long-term financial planning assumptions and the potential policy implications tied to analyses prepared by NHA Advisors, the Finance Commission recommends that any formal analyses, forecasts, or advisory recommendations produced by NHA first be presented to the Finance Commission for review and discussion prior to Council consideration or implementation.

This process would strengthen transparency, provide an opportunity for independent financial review, and allow the Commission to evaluate underlying assumptions, methodology, fiscal impacts, and consistency with the Town's broader long-term financial strategy before recommendations advance further in the decision-making process.

Capital Improvement Program — Schedule B-4

Three-Year Budget Comparison · FY 2024-25 through FY 2026-27 · Includes Carryforward

TOTAL PROJECT FUNDING

FY 2024-25 ADOPTED \$32,568,599 Baseline year
FY 2025-26 ADOPTED \$22,687,140 vs FY25: -\$9,881,459 (-30.3%)
FY 2026-27 PROPOSED \$24,682,126 vs FY26: +\$1,994,986 (+8.8%)
CHANGE FY25 → FY26 -\$9,881,459 -30.3%
CHANGE FY26 → FY27 +\$1,994,986 +8.8%

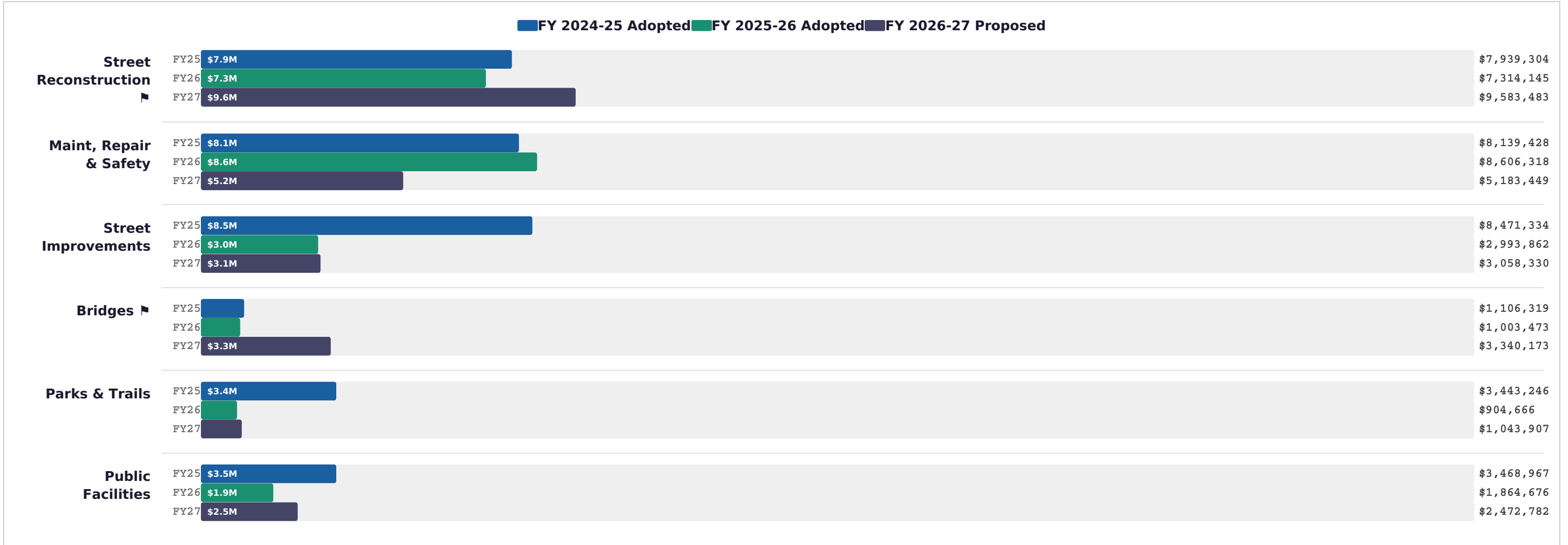
PROGRAM DETAIL

CATEGORY	FY 2024-25 ADOPTED (\$)	SHARE	FY 2025-26 ADOPTED (\$)	SHARE	FY 2026-27 PROPOSED (\$)	SHARE	FY25→26 \$ CHG	FY25→26 % CHG	FY26→27 \$ CHG	FY26→27 % CHG
STREETS PROGRAM										
Street Reconstruction	7,939,304	24%	7,314,145	32%	9,583,483	39%	-625,159	-7.9%	+2,269,338	+31.0%
Maintenance, Repair & Safety	8,139,428	25%	8,606,318	38%	5,183,449	21%	+466,890	+5.7%	-3,422,869	-39.8%
Street Improvements	8,471,334	26%	2,993,862	13%	3,058,330	12%	-5,477,472	-64.7%	+64,468	+2.2%
Bridges	1,106,319	3%	1,003,473	5%	3,340,173	14%	-102,846	-9.3%	+2,336,700	+232.9%
Streets Program Total	25,656,386	79%	19,917,798	88%	21,165,436	86%	-5,738,588	-22.4%	+1,247,638	+6.3%
PARKS & TRAILS PROGRAM										
Park Improvements	1,228,433	4%	401,374	2%	445,772	2%	-827,059	-67.3%	+44,398	+11.1%
Trail Improvements	2,214,813	7%	503,292	2%	598,135	2%	-1,711,521	-77.3%	+94,843	+18.8%
Parks & Trails Total	3,443,246	11%	904,666	4%	1,043,907	4%	-2,538,580	-73.7%	+139,241	+15.4%
PUBLIC FACILITIES PROGRAM										
Infrastructure	2,841,081	9%	1,049,438	4%	1,698,565	7%	-1,791,643	-63.1%	+649,127	+61.9%
Equipment	627,886	2%	815,237	4%	774,217	3%	+187,351	+29.8%	-41,020	-5.0%
Public Facilities Total	3,468,967	11%	1,864,676	8%	2,472,782	10%	-1,604,291	-46.2%	+608,106	+32.6%
TOTAL PROJECT FUNDING	32,568,599	100%	22,687,140	100%	24,682,126	100%	-9,881,459	-30.3%	+1,994,986	+8.8%

Items flagged for program management review — see pages 3 and 4 · Source: Adopted CIP FY 2024-25, FY 2025-26 & Proposed CIP FY 2026-27 (Schedule B-4) · All figures include carryforward

Budget Comparison by Program Category

Bar width proportional to \$32.6M baseline · Exact dollar totals shown right of each bar



▾ Items flagged for program management review — see pages 3 and 4

REQUIRES FURTHER INSPECTION

Annual Street Repair & Resurfacing — Project 8101

Growing carryforward balance signals chronic underspending

<p>FY23-24 CARRYFORWARD \$4,044,465 \$3.7M spent of ~\$7.6M available · 49% utilization</p>
<p>FY24-25 CARRYFORWARD \$3,629,307 \$3.8M spent of ~\$7.1M available · 53% utilization</p>
<p>FY25-26 CARRYFORWARD \$6,357,803 \$978K spent of ~\$6.5M available · 15% utilization</p>
<p>FY26-27 ANNUAL BUDGET \$2,865,680 Declining from \$3.5M in FY25 while carryforward grows</p>

SPENDING UTILIZATION BY YEAR

YEAR	ANNUAL BUDGET	ACTUAL SPEND	CARRYFORWARD	UTILIZATION
FY 2023-24	\$3,534,839	\$3,723,736	\$4,044,465	49%
FY 2024-25	\$3,504,839	\$3,758,469	\$3,629,307	53%
FY 2025-26	\$2,865,680	\$977,914	\$6,357,803	15%

Available budget = prior carryforward + annual appropriation

ANALYSIS

The Annual Street Repair & Resurfacing program is the Town's largest CIP line item. In FY 2025-26, actual spending collapsed to **\$977,914** against \$6.5M available — a utilization rate of **15%**. This is a sharp departure from the prior two years at 49–53%.

The carryforward entering FY 2026-27 of **\$6.36M** is the highest on record for this program and now represents 66% of the Street Reconstruction category budget.

While carryforward is normal in pavement programs due to construction season constraints and bid timing, a growing unresolved balance year over year raises concern that the program lacks the delivery capacity — staff bandwidth, contractor availability, or procurement processes — to execute approved appropriations. **Deferred pavement treatment accelerates deterioration** and increases long-term costs significantly.

QUESTIONS REQUIRING STAFF RESPONSE

- **Spending Collapse:** What specific streets were planned for resurfacing in FY 2025-26 and what caused spending to drop to \$978K — were contracts awarded and work deferred, or were bids never issued?
- **Encumbrance Status:** Is the \$6.36M carryforward tied to specific contracted work already scheduled for FY 2026-27, or is it unencumbered and available for reallocation?
- **Pavement Condition:** Has the Town's Pavement Condition Index (PCI) been updated to reflect the impact of deferred treatments, and what is the projected cost increase from delayed maintenance?
- **Budget Adequacy:** Does the declining annual appropriation of \$2.87M realistically reflect current construction costs per lane-mile, or is the program structurally underfunded?

REQUIRES FURTHER INSPECTION

Highway 17 Bicycle & Pedestrian Bridge — Project 8510

\$3.29M design balance with no funded path to construction

<p>SPENT TO DATE (DESIGN)</p> <p>\$3.64M</p> <p>Design only · No construction started</p>
<p>FY26-27 CARRYFORWARD</p> <p>\$3.29M</p> <p>Remaining design budget · Final design due Q1 2026</p>
<p>EST. CONSTRUCTION COST</p> <p>~\$25M</p> <p>Per published estimates · No construction in CIP through FY31</p>
<p>UNFUNDED GAP</p> <p>~\$22M+</p> <p>After TDA3 grant of \$2.47M secured June 2025</p>

CONSTRUCTION FUNDING STATUS

FUNDING SOURCE	AMOUNT	STATUS
Measure B (VTA) — Design	\$2,750,000	Secured / Spent
Town General Fund / Traffic Mitigation — Design	~\$1,000,000	Secured / Spent
TDA3 (MTC/VTA) — Construction	\$2,468,786	Approved June 2025
Safe Streets for All (Federal)	\$9,900,000	Applied June 2025 · Pending
Remaining Construction Gap	~\$22,000,000+	Unfunded
Estimated Total Construction Cost	~\$25,000,000	—

Source: Town Council Agenda Report, June 17, 2025 (Item 17)

ANALYSIS

The entire \$3.29M carryforward is **design only** — final engineering, Caltrans permitting, and environmental clearance. No construction funding exists in the six-year CIP through FY 2030-31.

As of June 2025, secured construction funding totals just **\$2.47M** against an estimated cost of ~\$25M. Staff's own assessment puts full construction funding **3-5 years away**, dependent on OBAG (2026) and Measure B (2029) calls.

The Finance Commission raised this concern during FY 2025-26 budget discussions. Staff acknowledged the Town is not obligated to continue with General Fund resources if grants do not materialize. The core question is whether the design carryforward is fully contracted or whether a portion can be deferred until construction funding is more certain.

QUESTIONS REQUIRING STAFF RESPONSE

- **Contract Encumbrance:** Is the \$3.29M carryforward fully encumbered under existing contracts with BKF Engineers, or is a portion discretionary and available for deferral?
- **Grant Status:** What is the current status of the June 2025 Safe Streets for All (SS4A) application — has a funding decision been issued by the USDOT?
- **Fallback Plan:** If SS4A is not awarded, what is the revised construction funding timeline and does the project remain viable on the current schedule?

Key Point: If construction funding remains unidentified when design completes (Q1 2026), what is staff's formal recommendation — pause the project, shelve it, or proceed with phased construction?