



**TOWN OF LOS GATOS
FINANCE COMMISSION AGENDA
APRIL 13, 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 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

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.)

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

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: 4/13/2026

Item 1.

ITEM NO: 1

**Minutes of the Finance Commission Regular Meeting
March 9, 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 (Participated remotely and joined the meeting at 6:10 P.M.), Commissioner Phil Koen, Commissioner Linda Reiners, Vice Mayor Maria Ristow and Council Member Matthew Hudes

Absent: Vice Chair Adam Fischer

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.

CONSENT ITEMS

1. Approve the Minutes of the February 9, 2026, Finance Commission Regular Meeting
2. Receive the Monthly Financial and Investment Report for January 2026
3. Recommend that the Town Council Receive the Independent Accountants' Report on Agreed-Upon Procedures on Measure G Revenues and Expenditures for the Period July 1, 2024, to June 30, 2025
4. Receive the California Employer's Retiree Benefit Trust (CERBT) Strategy 1 Market Value Summary Report for the Period Ending December 31, 2025, and the Performance Report as of January 31, 2026.
5. Receive the California Employer's Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending December 31, 2025, and Performance as of January 31, 2026

Chair Monk pulled Item five for discussion.

The following individuals spoke on the consent items:

1. Chris Wiley

**MOTION: Motion by Commissioner Reiners to approve items one, two, three, and four.
Seconded by Commissioner Koen.**

VOTE: Motion passed unanimously.

VERBAL COMMUNICATIONS

The following individual spoke during verbal communications:

- 1. Member of the Public

PULLED CONSENT ITEMS

- 5. Receive the California Employer’s Pension Prefunding Trust (CEPPT) Strategy Market Value Summary Report for the Period Ending December 31, 2025, and Performance as of January 31, 2026

The Commission discussed the item and asked questions.

Staff addressed the Commissioners’ questions.

The following individuals spoke on this item:

- 1. Lee Fagot

MOTION: Motion by Commissioner Keon to recommend to the Town Council to take the entire balance, which is roughly 3.9 million, in this trust fund [CEPPT fund] to make an ADP (Additional Discretionary Payment) to CalPERS targeting the longest negative bases in the safety unfunded pension balance. **Seconded** by **Commissioner Reiners.**

VOTE: Motion passed unanimously.

OTHER BUSINESS

- 6. Establishing the Structure of a Multi-Year Capital Improvement Program

Nicolle Burnham, Parks and Public Works Director, presented the item.

Commissioner Rodgers arrived during this item.

The Commission discussed the item and asked questions.

Staff addressed the Commissioners’ questions.

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SUBJECT: Draft Minutes of the Finance Commission Regular Meeting of March 9, 2026

DATE: April 13, 2026

The following individual spoke on this item:

1. Chris Wiley

MOTION: Motion by **Commissioner Reiners** to recommend that Council consider hiring a full-time equivalent (FTE) or consultant to help with data management and project management on this plan and move forward quickly with a project management software. **Seconded** by **Commissioner Keon**.

VOTE: Motion passed unanimously.

ADJOURNMENT:

The meeting adjourned at 6:52 p.m.

This is to certify that the foregoing is a true and correct copy of the minutes of the March 9, 2026, regular meeting as approved by the Finance Commission.

Eric Lemon, Finance and Accounting Manager



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 4/13/2026

ITEM NO: 2

Item 2.

DATE: April 13, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Monthly Financial and Investment Report for February 2026

RECOMMENDATION: Receive the Monthly Financial and Investment Reports for February 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 February 2026 monthly Financial and Investment Report, which fulfills this requirement.

The February 2026 Monthly Financial and Investment Report will be presented to the Town Council at its April 21, 2026, regular meeting.

DISCUSSION:

The February 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 February 28, 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 February 28 and January 31 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 - February 28, 2026		
Total Cash	\$	77,392,752
Plus: Assets	\$	13,508,339
Less: Liabilities	\$	(23,900,731)
Estimated Fund Balance	\$	67,000,360

As of February 28, 2026, the Town’s financial position (Cash Plus Other Assets \$90.90M, Liabilities \$23.90M, and Fund Equity \$67.00M) remains strong, and the Town has sufficient funds to meet the cash demands for the next six months.

As of February 28, 2026, the Town’s weighted portfolio yield for investments under management was 4.20%, which was 33 basis points above the Local Agency Investment Fund (LAIF) yield of 3.87% for the same reporting period. Currently, the LAIF portfolio’s weighted average maturity (WAM) is 258 days versus the Town’s longer WAM of 640 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 4.20% at the close of February was 1 basis point lower when compared to the prior month’s return of 4.21% reported as of January 31, 2026.

Since February 2025, LAIF yields decreased from 433 basis points (4.33%) to 387 basis points (3.87%) through the end of February 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

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SUBJECT: Monthly Financial and Investment Report for February 2026

DATE: April 13, 2026

meeting, the Committee approved a final 25-basis-point reduction to 3.50%–3.75%, reflecting 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 reflect a "low hiring, low firing" regime. Revisions to 2025 employment figures showed only 181,000 new jobs added for the full year, the lowest annual total outside of recession years since 2003. Initial jobless claims eased from 231,000 in early February due to severe winter weather to 212,000 by month-end. Continuing claims fell to 1.833 million in mid-February, the lowest level since June 2024.

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 (February 2026)

**Town of Los Gatos
Summary Investment Information
February 28, 2026**

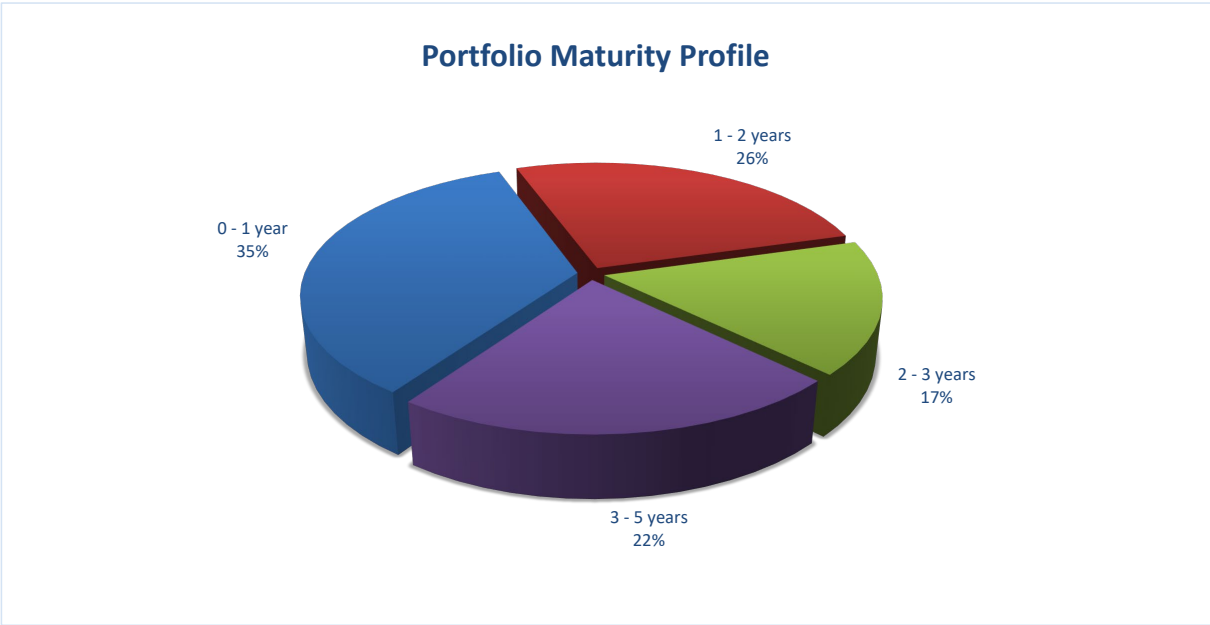
Weighted Average YTM Portfolio Yield on Investments under Management **4.20%**

Weighted Average Maturity (days) **640**

	This Month	Last Month	One year ago
Portfolio Allocation & Treasurer's Cash Balances	\$77,392,752	\$78,053,230	\$69,759,388
Managed Investments	\$53,206,065		
Local Agency Investment Fund	\$9,605,206		
Reconciled Demand Deposit Balances	\$14,581,481		
Portfolio Allocation & Treasurer's Cash Balances	\$77,392,752		

Benchmarks/ References:

Town's Average Yield	4.20%	4.21%	4.44%
LAIF Yield for month	3.87%	3.93%	4.33%
3 mo. Treasury	3.66%	3.65%	4.29%
6 mo. Treasury	3.62%	3.62%	4.27%
2 yr. Treasury	3.37%	3.52%	3.99%
5 yr. Treasury	3.50%	3.79%	4.02%
10 Yr. Treasury	3.94%	4.24%	4.21%

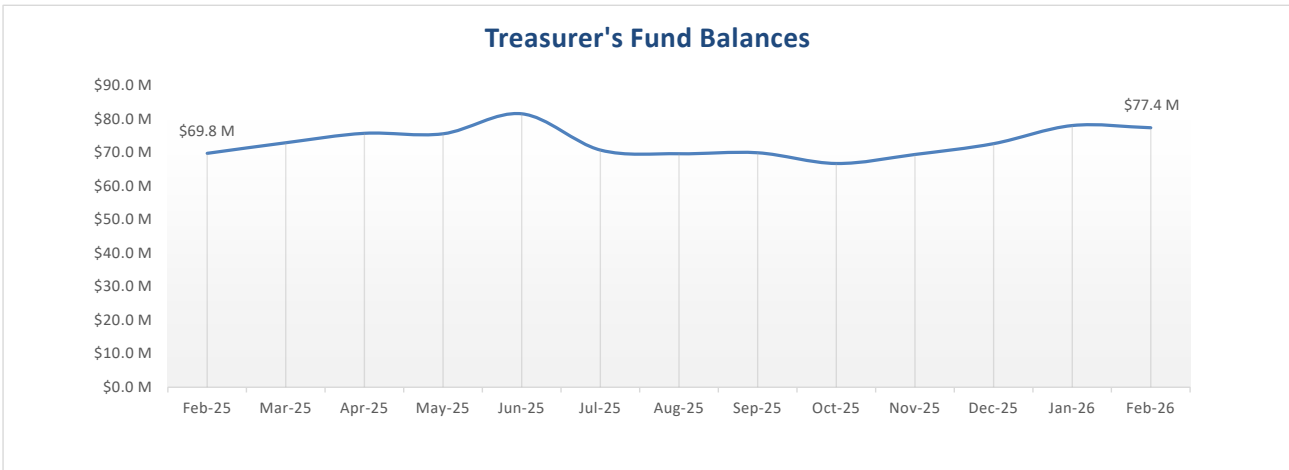
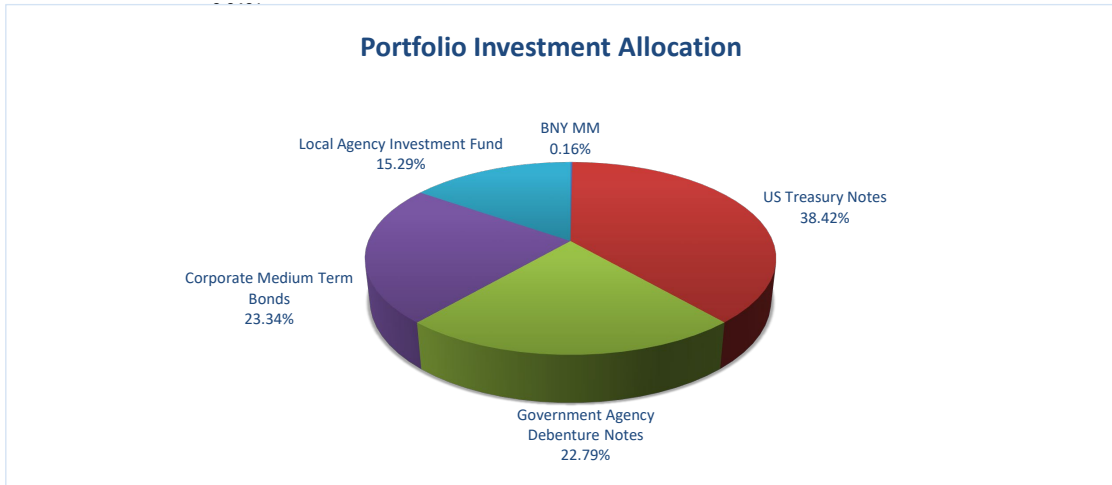


Compliance: The Town's investments are in compliance with the Town's investment policy dated March 18, 2025, and also in compliance with the requirements of Section 53600 at seq. of the California State Code. Based on the information available, the Town has sufficient funds to meet the cash demands for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

**Town of Los Gatos
Portfolio Allocation & Treasurer's Cash Balances
February 28, 2026**

	Month	YTD
Cash & Investment Balances - Beginning of Month/Period	\$ 78,053,229.67	\$ 81,558,113.19
Receipts	3,975,089.85	54,370,159.84
Disbursements	(4,635,568.01)	(58,535,521.52)
Cash & Investment Balances - End of Month/Period	<u>\$77,392,751.51</u>	<u>\$77,392,751.51</u>

Portfolio Allocation	Amount	% of Portfolio	Max. % or \$ Allowed per State Law or Policy
BNY MM	\$101,071.46	0.16%	20% of Town Portfolio
US Treasury Notes	\$24,129,270.12	38.42%	No Max. on US Treasuries
Government Agency Debenture Notes	\$14,316,775.31	22.79%	No Max. on Non-Mortgage Backed
Corporate Medium Term Bonds	\$14,658,947.80	23.34%	30% of Town Portfolio
Local Agency Investment Fund	\$9,605,206.08	15.29%	\$75 M per State Law
Subtotal - Investments	62,811,270.77	100.00%	
Reconciled Demand Deposit Balances	<u>14,581,480.74</u>		
Total Portfolio Allocation & Treasurer's Cash Balances	<u>\$77,392,751.51</u>		



**Town of Los Gatos
Non-Treasury Restricted Fund Balances
February 28, 2026**

	Beginning Balance	February 2026 Deposits Realized Gain/Adj.	February 2026 Interest/ Earnings	February 2026 Withdrawals	Ending Balance	
Non-Treasury Funds:						
Cert. of Participation 2002 Ser A Reserve Fund	\$ 698,819.89	\$ -	\$ 1,894.91	\$ -	\$ 700,714.80	Note 1
Cert. of Participation 2010 Ser Lease Payment Fund	72,470.81	-	69.36	72,462.50	77.67	Note 2
Cert. of Participation 2002 Ser A Lease Payment Fund	86,790.82	-	96.20	86,750.00	137.02	Note 1
Cert. of Participation 2010 Ser Reserve Fund	1,307,454.86	-	3,970.25	-	1,311,425.11	Note 2
Total Restricted Funds:	\$ 2,165,536.38	\$ -	\$ 6,030.72	\$ 159,212.50	\$ 2,012,354.60	
CEPPT IRS Section 115 Trust	3,272,329.63	690,000.00	68,779.36	590.29	\$ 4,030,518.70	Note 3
Grand Total COP's and CEPPT Trust	\$ 5,437,866.01	\$ 690,000.00	\$ 74,810.08	\$ 159,802.79	\$ 6,042,873.30	

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
February 28, 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	\$	-
April 2026	\$	-
May 2026	\$	-
June 2026	\$	-
	\$	<u>1,855,138.81</u>

Town of Los Gatos
Investment Schedule
February 28, 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	057833D#3	Corporate Bond	2.90%	12/20/2022	1,300,000.00	1,287,429.00	(17,409.00)	1,287,429.00	58,838.00		6/21/2027	4.19%	\$ 102,837.22	\$ 135,426.07	\$ 35,653.88	478
Home Depot	437076BM3	Corporate Bond	3.00%	8/4/2022	1,000,000.00	991,960.00	(8,040.00)	999,250.00	7,290.00		4/1/2026	3.04%	\$ 94,750.00	\$ 93,590.54	\$ 21,434.97	32
FFCB	3133ENS#8	Gov. Agency Debenture	4.13%	1/17/2023	236,000.00	239,174.20	3,174.20	236,951.08	(2,223.12)		1/11/2027	3.76%	\$ 29,042.75	\$ 21,918.24	\$ 5,950.99	317
US Treasury	91282CBT7	US Treasury Note	0.75%	9/30/2022	800,000.00	712,565.18	(87,434.82)	798,112.00	85,546.82		3/31/2026	4.14%	\$ 18,000.00	\$ 85,193.12	\$ 20,619.45	31
JP Morgan Chase	4662SHRS1	Corporate Bond	3.20%	9/23/2022	500,000.00	474,660.00	(25,340.00)	499,070.00	24,410.00		3/15/2026	4.70%	\$ 51,644.44	\$ 64,505.94	\$ 15,504.40	15
FHBL	3130AQF65	Gov. Agency Debenture	1.25%	11/30/2022	1,300,000.00	1,160,559.40	(139,440.60)	1,276,990.00	116,430.60		12/21/2026	4.15%	\$ 49,697.92	\$ 130,709.25	\$ 33,682.24	296
FHBL	3130APIH9	Gov. Agency Debenture	1.00%	1/17/2023	1,000,000.00	907,010.00	(92,990.00)	991,780.00	84,770.00		10/28/2026	4.17%	\$ 28,354.17	\$ 84,829.28	\$ 23,031.86	242
FFCB	3133ENS#6	Gov. Agency Debenture	4.00%	2/8/2023	1,700,000.00	1,706,732.00	6,732.00	1,717,289.00	10,557.00		1/6/2028	3.91%	\$ 197,955.56	\$ 159,363.33	\$ 44,358.86	677
American Honda	02665WED9	Corporate Bond	4.70%	5/11/2023	600,000.00	608,856.00	8,856.00	609,348.00	492.00		1/12/2028	4.34%	\$ 75,278.33	\$ 56,288.41	\$ 17,513.55	683
US Treasury	91282CF4	US Treasury Note	2.50%	6/9/2023	1,500,000.00	1,416,626.12	(83,373.88)	1,484,295.00	67,668.88		3/31/2027	4.09%	\$ 86,577.87	\$ 122,333.72	\$ 39,530.71	396
Colgate-Palmolive	194162AR4	Corporate Bond	4.60%	7/14/2023	500,000.00	504,655.00	4,655.00	509,190.00	4,535.00		2/1/2028	4.37%	\$ 49,002.79	\$ 43,173.83	\$ 14,632.13	703
FFCB	3133EPQC2	Gov. Agency Debenture	4.63%	7/17/2023	500,000.00	501,957.50	1,957.50	501,380.00	(577.50)		7/17/2026	4.48%	\$ 57,812.50	\$ 43,961.07	\$ 14,961.54	139
FFCB	3133EPBM6	Gov. Agency Debenture	4.13%	7/14/2023	600,000.00	596,220.00	(3,780.00)	605,652.00	9,432.00		8/23/2027	4.29%	\$ 64,556.25	\$ 50,424.13	\$ 17,089.35	541
PNC Bank	69353RF#2	Corporate Bond	3.25%	7/25/2023	1,000,000.00	921,490.00	(78,510.00)	992,140.00	70,650.00		12/23/2027	5.23%	\$ 80,979.17	\$ 97,247.67	\$ 33,471.93	663
US Treasury	91282CFU0	US Treasury Note	4.13%	7/31/2023	1,300,000.00	1,290,660.60	(9,339.40)	1,314,781.00	24,120.40		10/31/2027	4.31%	\$ 120,656.25	\$ 107,052.11	\$ 37,162.38	610
Toyota Motor Credit	89236TKL8	Corporate Bond	5.45%	8/25/2023	1,600,000.00	1,617,168.00	17,168.00	1,647,200.00	30,032.00		11/10/2027	5.16%	\$ 192,566.67	\$ 153,725.55	\$ 55,341.20	620
US Treasury	912810EF3	US Treasury Note	5.50%	10/3/2023	1,200,000.00	1,238,207.14	38,207.14	1,259,772.00	21,564.86		8/15/2028	4.76%	\$ 156,211.96	\$ 101,335.84	\$ 38,717.94	899
FFCB	3133PUW3	Gov. Agency Debenture	4.75%	10/13/2023	1,000,000.00	994,338.00	(5,662.00)	1,005,400.00	11,062.00		9/1/2026	4.96%	\$ 89,458.33	\$ 84,828.57	\$ 3,298.66	185
US Treasury	91282CEW7	US Treasury Note	3.25%	10/16/2023	1,000,000.00	950,039.06	(49,960.94)	997,420.00	47,380.94		6/30/2027	4.73%	\$ 71,711.96	\$ 78,477.53	\$ 30,610.02	487
US Treasury	91282CEN7	US Treasury Note	2.75%	10/31/2023	1,300,000.00	1,214,336.39	(85,663.61)	1,289,184.00	74,847.61		4/30/2027	4.82%	\$ 71,500.00	\$ 100,336.49	\$ 40,101.59	426
US Treasury	91282CCH2	US Treasury Note	1.25%	12/21/2023	900,000.00	798,647.55	(101,352.45)	857,457.00	58,809.45		6/30/2028	3.99%	\$ 22,805.71	\$ 51,319.84	\$ 22,389.09	853
FNMA	3135GQJ22	Gov. Agency Debenture	1.88%	12/21/2023	900,000.00	845,676.00	(54,324.00)	891,036.00	45,360.00		9/24/2026	4.22%	\$ 29,671.88	\$ 55,770.03	\$ 24,330.55	208
US Treasury	91282CFB2	US Treasury Note	2.75%	1/2/2024	1,000,000.00	960,354.91	(39,645.09)	990,470.00	30,115.09		7/31/2027	3.95%	\$ 57,167.12	\$ 57,605.73	\$ 25,684.76	518
US Treasury	91282CHE4	US Treasury Note	3.63%	1/17/2024	1,800,000.00	1,775,185.72	(24,814.28)	1,809,414.00	34,228.28		5/31/2028	3.97%	\$ 121,942.63	\$ 102,986.91	\$ 47,218.53	823
JP Morgan Chase	46647PDG8	Corporate Bond	4.85%	2/1/2024	1,400,000.00	1,396,528.00	(3,472.00)	1,416,422.00	19,894.00		7/25/2027	4.93%	\$ 134,696.10	\$ 97,231.80	\$ 45,878.31	512
US Bancorp	91159HJF8	Corporate Bond	4.55%	2/5/2024	1,000,000.00	989,200.00	(10,800.00)	1,008,840.00	19,640.00		7/22/2027	4.89%	\$ 89,317.67	\$ 68,041.60	\$ 32,356.38	509
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	\$ 35,251.04	76
FHBL	3130AXH31	Gov. Agency Debenture	4.88%	2/27/2024	1,000,000.00	1,003,060.00	3,060.00	1,003,060.00	3,000.00		3/13/2026	4.72%	\$ 76,104.17	\$ 63,303.13	\$ 33,457.39	13
FFCB	3133EP5U5	Gov. Agency Debenture	4.13%	3/28/2024	1,700,000.00	1,687,981.00	(12,019.00)	1,735,048.00	45,067.00		3/20/2029	4.28%	\$ 103,629.17	\$ 91,219.09	\$ 48,292.46	1116
US Treasury	91282SM#8	US Treasury Note	3.13%	4/30/2024	1,200,000.00	1,123,832.14	(76,167.86)	1,192,080.00	68,247.86		11/15/2028	4.69%	\$ 57,795.34	\$ 63,313.82	\$ 36,115.63	991
Cisco Systems	17275RBR#2	Corporate Bond	4.85%	5/15/2024	1,000,000.00	999,130.00	(870.00)	1,030,020.00	30,890.00		1/26/2029	4.87%	\$ 86,366.94	\$ 54,820.58	\$ 32,412.17	1063
Home Depot	437076C#0	Corporate Bond	4.90%	5/17/2024	1,000,000.00	1,001,790.00	1,790.00	1,031,670.00	29,880.00		4/15/2029	4.86%	\$ 69,144.44	\$ 54,498.76	\$ 32,379.46	1142
Treasury	91282CJR3	US Treasury Note	3.75%	5/31/2024	1,200,000.00	1,154,629.02	(45,370.98)	1,211,856.00	57,226.98		12/31/2028	4.68%	\$ 71,208.79	\$ 59,398.06	\$ 36,541.08	1037
FHBL	3130B1BT3	Gov. Agency Debenture	4.88%	7/2/2024	1,150,000.00	1,150,966.00	966.00	1,153,657.00	2,691.00		6/12/2026	4.82%	\$ 75,372.92	\$ 55,261.42	\$ 36,993.18	104
Citibank	17325FBK3	Corporate Bond	4.84%	8/15/2024	1,250,000.00	1,263,062.50	13,062.50	1,284,375.00	21,312.50		7/6/2029	4.60%	\$ 89,200.62	\$ 50,520.38	\$ 38,484.18	1224
FNMA	3135G05Y5	Gov. Agency Debenture	0.75%	9/10/2024	1,100,000.00	1,100,724.00	(89,276.00)	1,054,614.00	43,890.00		10/8/2027	3.56%	\$ 8,891.67	\$ 29,915.45	\$ 24,810.42	587
US Treasury	91282CFL0	US Treasury Note	3.88%	12/3/2024	1,100,000.00	1,088,144.31	(11,855.69)	1,116,071.00	27,926.69		9/30/2029	4.12%	\$ 35,130.49	\$ 25,813.46	\$ 30,012.78	1310
FHBL	3130AUT#2	Gov. Agency Debenture	4.50%	2/12/2025	505,000.00	508,253.21	3,253.21	523,538.55	15,285.34		12/14/2029	4.35%	\$ 19,063.75	\$ 8,337.70	\$ 14,681.61	1385
FFCB	3133ER5X5	Gov. Agency Debenture	3.88%	3/31/2025	1,000,000.00	998,480.00	(1,520.00)	1,007,560.00	9,080.00		3/7/2028	3.93%	\$ 18,836.81	\$ 11,831.34	\$ 26,136.50	738
Treasury	91282CFJ9	US Treasury Note	4.88%	3/31/2025	1,100,000.00	1,130,167.75	30,167.75	1,141,382.00	11,214.25		10/31/2028	4.04%	\$ 31,256.56	\$ 11,273.90	\$ 30,105.02	976
State Street Corp	857477CD3	Corporate Bond	5.27%	4/30/2025	800,000.00	811,184.00	11,184.00	803,488.00	(7,696.00)		8/3/2026	4.04%	\$ 31,983.47	\$ 5,565.50	\$ 22,170.75	156
Freddie Mac	3134HAW#3	Gov. Agency Debenture	4.75%	4/30/2025	1,000,000.00	1,005,644.00	5,644.00	1,002,570.00	(3,074.00)		12/18/2029	4.23%	\$ 30,743.07	\$ 7,735.00	\$ 30,813.19	1389
US Treasury	91282CNG2	US Treasury Note	4.00%	6/30/2025	660,000.00	665,184.24	5,184.24	673,589.40	8,405.16		5/31/2030	3.82%	\$ 11,036.08	\$ -	\$ 16,874.46	1553
US Treasury	91282CMG3	US Treasury Note	4.25%	8/4/2025	825,000.00	842,308.43	17,308.43	848,817.75	6,509.32		1/31/2030	3.74%	\$ 17,150.14	\$ -	\$ 17,886.94	1433
US Treasury	91282CMA6	US Treasury Note	4.13%	8/25/2025	1,200,000.00	1,218,847.77	18,847.77	1,228,452.00	9,604.23		11/30/2029	3.72%	\$ 13,118.86	\$ -	\$ 23,098.06	1371
US Treasury	91282CHR5	US Treasury Note	4.00%	9/23/2025	950,000.00	967,036.38	17,036.38	969,817.00	2,780.62		7/31/2030	3.59%	\$ 13,423.92	\$ -	\$ 14,930.27	1614
US Treasury	91282CGH8	US Treasury Note	4.00%	10/3/2025	1,000,000.00	1,013,362.72	13,362.72	1,019,920.00	6,557.28		2/28/2030	3.67%	\$ 16,353.59	\$ -	\$ 14,990.04	1461
State Street Corp	857477D#6	Corporate Bond	4.83%	11/10/2025	580,000.00	596,535.80	16,535.80	597,951.00	1,415.20	1,246.09	4/24/2030	4.13%	\$ (1,246.09)	\$ -	\$ 7,330.91	1516
US Treasury	91282CKA8	US Treasury Note	4.13%	12/17/2025	1,150,000.00	1,157,775.34	7,775.34	1,156,359.50	(1,415.84)		2/15/2027	3.52%	\$ 7,734.37	\$ -	\$ 8,151.97	352
US Treasury	91282CHW4	US Treasury Note	4.13%	12/17/2025	1,150,000.00	1,179,647.00	20,308.54	1,179,647.00	9,338.46		8/31/2030	3.71%	\$ 9,566.13	\$ -	\$ 8,624.56	1645
US Treasury	91282CHZ7	US Treasury Note	4.63%	1/13/2026	1,050,000.00	1,089,087.89	39,087.89	1,099,591.50	10,503.61	14,008.41	9/30/2030	3.75%	\$ (14,008.41)	\$ -	\$ 5,075.44	1675
Morgan Stanley Pvt Bank	61776NU#43	Corporate Bond	4.21%	2/26/2026	1,250,000.00	1,254,137.50	4,137.50	1,256,187.50	2,050.00	3,510.83	2/8/2029	4.09%	\$ (3,510.83)	\$ -	\$ 280.89	1076
Subtotal					\$ 54,031,000.00	\$ 53,104,993.23										

Town of Los Gatos
Investment Transaction Detail
February 28, 2026

Date	Cusip/Id	Description	Transaction Type	Trade Date	Settlement Date	Par	Coupon	Maturity Date	Price	Principal	Interest	Transaction Total
2/3/2026	Cash-USD	Cash-USD	SHORT TERM INVESTMENT FUND INCOME	2/3/2026	2/3/2026	718.65	0.000%		100.00	-	-	718.65
2/3/2026	857477CD3	STATE STREET CORP 5.272% 03AUG2026 (CALLABLE 03JUL26)	BOND INTEREST	2/3/2026	2/3/2026	800,000.00	5.272%	8/3/2026	-	-	21,088.00	21,088.00
2/6/2026	17325FBK3	CITIBANK NA 4.838% 06AUG2029 (CALLABLE 06JUL29)	BOND INTEREST	2/6/2026	2/6/2026	1,250,000.00	4.838%	8/6/2029	-	-	30,237.50	30,237.50
2/17/2026	912810FE3	USA TREASURY 5.5% 15AUG2028	BOND INTEREST	2/15/2026	2/15/2026	1,200,000.00	5.500%	8/15/2028	-	-	33,000.00	33,000.00
2/17/2026	91282CKA8	USA TREASURY 4.125% 15FEB2027	BOND INTEREST	2/15/2026	2/15/2026	1,150,000.00	4.125%	2/15/2027	-	-	23,718.75	23,718.75
2/23/2026	3133EPBM6	FEDERAL FARM CREDIT BANK 4.125% 23AUG2027	BOND INTEREST	2/23/2026	2/23/2026	600,000.00	4.125%	8/23/2027	-	-	12,375.00	12,375.00
2/24/2026	713448DF2	PEPSICO INC 2.85% 24FEB2026 CALLABLE	REDEMPTION	2/24/2026	2/24/2026	1,000,000.00	0.000%	2/24/2026	100.00	1,000,000.00	-	1,000,000.00
2/24/2026	713448DF2	PEPSICO INC 2.85% 24FEB2026 CALLABLE	BOND INTEREST	2/24/2026	2/24/2026	1,000,000.00	0.000%	2/24/2026	-	-	14,250.00	14,250.00
2/26/2026	61776NU43	MORGAN STANLEY PVT BANK 4.213% 08FEB2030 (CALLABLE 08FEB29)	PURCHASE	2/25/2026	2/26/2026	1,250,000.00	4.213%	2/8/2030	100.33	1,254,137.50	3,510.83	1,257,648.33
2/26/2026	17275RBR2	CISCO SYSTEMS INC 4.85% 26FEB2029 (CALLABLE 26JAN29)	BOND INTEREST	2/26/2026	2/26/2026	1,000,000.00	4.850%	2/26/2029	-	-	24,250.00	24,250.00
3/2/2026	91282CHW4	USA TREASURY 4.125% 31AUG2030	BOND INTEREST	2/28/2026	2/28/2026	1,150,000.00	4.125%	8/31/2030	-	-	23,718.75	23,718.75
3/2/2026	91282CGQ8	USA TREASURY 4% 28FEB2030	BOND INTEREST	2/28/2026	2/28/2026	1,000,000.00	4.000%	2/28/2030	-	-	20,000.00	20,000.00

TOWN OF LOS GATOS, CA
 Insight ESG ratings as of February 28, 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	612,863	A-	A3	3	2	4	3
037833DB3	APPLE INC 2.9% 12SEP2027 (CALLABLE 12JUN27)	9/12/2027	1,300,000	1,304,636	AA+	Aaa	5	2	5	5
17275RBR2	CISCO SYSTEMS INC 4.85% 26FEB2029 (CALLABLE 26JAN29)	2/26/2029	1,000,000	1,030,095	AA-	A1	2	1	3	3
17325FBK3	CITIBANK NA 4.838% 06AUG2029 (CALLABLE 06JUL29)	8/6/2029	1,250,000	1,287,665	A+	Aa3	3	1	2	4
194162AR4	COLGATE-PALMOLIVE CO 4.6% 01MAR2028 (CALLABLE 01FEB28)	3/1/2028	500,000	520,035	A+	Aa3	3	3	3	2
437076CW0	HOME DEPOT INC 4.9% 15APR2029 (CALLABLE 15MAR29)	4/15/2029	1,000,000	1,049,470	A	A2	3	3	3	3
437076BM3	HOME DEPOT INC 3% 01APR2026 (CALLABLE 29MAR26)	4/1/2026	1,000,000	1,011,500	A	A2	3	3	3	3
46625HRS1	JPMORGAN CHASE & CO 3.2% 15JUN2026 (CALLABLE 29MAR26)	6/15/2026	500,000	502,313	A	A1	3	2	3	5
46647PDG8	JPMORGAN CHASE & CO 4.851% 25JUL2028 (CALLABLE 25JUL27)	7/25/2028	1,400,000	1,422,446	A	A1	3	2	3	5
61776NU43	MORGAN STANLEY PVT BANK 4.213% 08FEB2030 (CALLABLE 08FEB29)	2/8/2030	1,250,000	1,259,748	A+	Aa3	3	1	3	4
69353RFJ2	PNC BANK NA 3.25% 22JAN2028 (CALLABLE 23DEC27)	1/22/2028	1,000,000	995,262	A	A2	3	3	3	2
857477CD3	STATE STREET CORP 5.272% 03AUG2026 (CALLABLE 03JUL26)	8/3/2026	800,000	806,397	A	Aa3	1	1	2	2
857477DB6	STATE STREET CORP 4.834% 24APR2030 (CALLABLE 24MAR30)	4/24/2030	580,000	607,133	A	Aa3	1	1	2	2
89236TKL8	TOYOTA MOTOR CREDIT CORP 5.45% 10NOV2027	11/10/2027	1,600,000	1,673,170	A+	A1	3	1	3	4
91159HJF8	US BANCORP 4.548% 22JUL2028 (CALLABLE 22JUL27)	7/22/2028	1,000,000	1,013,118	A	A3	3	2	3	3
Total Corporate / weighted average			14,780,000	15,095,850			3	2	3	4

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

Fund Schedule

Item 2.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2025*	Increase/ (Decrease) July-January	February 2026				Estimated Fund Balance 2/28/2026*
				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	(808,831)	3,817,470	(5,048,778)	-	-	8,170,910
	General Fund Total	35,763,316	(808,831)	3,817,470	(5,048,778)	-	-	33,723,177

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

Fund Schedule

Item 2.

Fund Number	Fund Description	Prior Year Carryforward 7/1/2025*	Increase/ (Decrease) July-January	February 2026				Estimated Fund Balance 2/28/2026*
				Current Revenue	Current Expenditure	Transfer In	Transfer Out	
SPECIAL REVENUE								
211/212	CDBG	166,653	-	-	-	-	-	166,653
222	Urban Runoff (NPDES)	664,168	836	13,641	(12,342)	-	-	666,303
231-236	Landscape & Lighting Districts	193,606	3,281	915	(2,100)	-	-	195,702
251	Los Gatos Theatre	381,120	105,139	44,549	(4,739)	-	-	526,069
261-264,269	Library Trusts	559,745	44,304	4,000	(1,754)	-	-	606,295
Special Revenue Total		1,965,292	153,560	63,105	(20,935)	-	-	2,161,022
CAPITAL PROJECTS								
411	GFAR - General Fund Appropriated Reserve	16,974,946	1,069,749	82,165	(54,697)	-	-	18,072,163
412	Community Center Development	819,604	-	-	-	-	-	819,604
421	Grant Funded Projects	(1,577,430)	852,101	232,153	(7,785)	-	-	(500,961)
461-463	Storm Basin Projects	2,825,234	57,501	20,564	-	-	-	2,903,299
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	(73,273)	149,315	(249)	-	-	2,206,341
Capital Projects Total		25,613,297	1,926,568	484,197	(62,731)	-	-	27,961,331
INTERNAL SERVICE FUNDS								
611	Town General Liability	208,746	(734,362)	-	(5,309)	-	-	(530,925)
612	Workers Compensation	1,259,972	(9,427)	26,702	(51,644)	-	-	1,225,603
621	Information Technology	2,585,103	(363,863)	8,195	(38,143)	-	-	2,191,292
631	Vehicle & Equipment Replacement	3,890,428	408,484	19,964	-	-	-	4,318,876
633	Facility Maintenance	820,099	9,014	5,884	(111,742)	-	-	723,255
Internal Service Funds Total		8,764,348	(690,154)	60,745	(206,838)	-	-	7,928,101
Trust/Agency								
942	RDA Successor Agency	(3,037,146)	(1,735,969)	-	(156)	-	-	(4,773,271)
Trust/Agency Fund Total		(3,037,146)	(1,735,969)	-	(156)	-	-	(4,773,271)
Total Town		69,069,107	(1,154,826)	4,425,517	(5,339,438)	-	-	67,000,360

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

Deposit Accounts of Interest:

- 111-23541 General Plan Update deposit account balance \$616,430.62
- 111-23521 BMP Housing deposit account balance \$3,723,190.79



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 04/13/2026

ITEM NO: 3

Item 3.

DATE: April 13, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive FY 2024-25 Federal Single Audit Report

RECOMMENDATION:

Staff recommends that the Finance Commission receive the Federal Single Audit Report for the fiscal year ending June 30, 2025, as prepared by Chavan & Associates, LLP.

DISCUSSION:

In performing the Single Audit for FY 2024-25, the Town's independent auditor Chavan & Associates, LLP, concluded that the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Attachment:

1. FY 2024-25 Single Audit

PREPARED BY: Eric Lemon
Finance & Accounting Manager

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

**TOWN OF LOS GATOS
CALIFORNIA**

SINGLE AUDIT REPORT

FOR THE FISCAL YEAR
ENDED JUNE 30, 2025



Chavan & Associates, LLP
Certified Public Accountants
16450 Monterey Road, Ste. 5
Morgan Hill, CA 95037

**TOWN OF LOS GATOS
CALIFORNIA
SINGLE AUDIT REPORT
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INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Town of Los Gatos (the “Town”) as of and for the fiscal year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements, and have issued our report thereon dated February 5, 2026.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit of the financial statements, we considered the Town’s internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses or significant deficiencies. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion



Chavan and Associates, LLP
Certified Public Accountants

on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

C & A LLP

Morgan Hill, California
February 5, 2026



Chavan and Associates, llp
Certified Public Accountants

INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE, AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Honorable Mayor and Members of the
Town Council of the Town of Los Gatos
Los Gatos, California

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Town of Los Gatos (the Town)'s compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Town’s major federal programs for the fiscal year ended June 30, 2025. The Town’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and Uniform Guidance are further described in the Auditor’s Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Town and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Town’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Town’s federal programs.



Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Town's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Town's compliance with the requirements of each major federal program.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Town's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Town's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



Chavan and Associates, llp
Certified Public Accountants

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Town as of and for the fiscal year ended June 30, 2025, and have issued our report thereon dated February 5, 2026, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

C & A LLP

February 5, 2026
Morgan Hill, California

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Assistance Listing</u>	<u>Pass-through Identifying Number</u>	<u>Expenditures to Subrecipients</u>	<u>Federal Expenditures</u>
U.S. Department of Transportation				
Pass-through programs from the California Office of Traffic Safety:				
<i>Highway Safety Cluster</i>				
National Priority Safety Program	20.616	Unavailable	\$ -	\$ 34,470
<i>Highway Safety Cluster Total</i>			-	34,470
Pass-through programs from the California Dept of Transportation:				
<i>Highway Planning and Construction Cluster</i>				
Highway Planning and Construction	20.205	(1) HSIPL-5067(022)	-	4,862,210
<i>Highway Planning and Construction Cluster Total</i>			-	4,862,210
Total U.S. Department of Transportation			-	4,896,680
U.S. Department of Justice				
Direct program:				
Bulletproof Vest Partnership Program	16.607	N/A	-	4,470
Total U.S. Department of Justice			-	4,470
U.S. Department of Homeland Security				
Pass-through program from the Santa Clara County:				
Emergency Management Preparedness Grant	97.042	Unavailable	-	14,866
Homeland Security Grant Program	97.067	Unavailable	-	65,000
Pass-through program from the State of California:				
Hazard Mitigation Grant Program (HMGP)	97.039	(1) Unavailable	-	1,196,721
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	Unavailable	-	165,407
Total U.S. Department of Treasury			-	1,441,994
Total Federal Programs			\$ -	\$ 6,343,144

(1) Audited as major program

See accompanying Notes to Schedule of Expenditures of Federal Awards.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the Town of Los Gatos (the Town) under programs of the federal government for the fiscal year ended June 30, 2025. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town and some amounts in this schedule may differ from amounts presented in the Town's financial statements.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. Pass-through entity identifying numbers are presented where available. The Town has elected not to use the 10 percent de-minimus indirect cost rate as allowed under Uniform Guidance.

Note 3. Relationship to the Basic Financial Statements

The amounts reported in the accompanying schedule agree, in all material respects, to amounts reported within the Town's financial statements. Federal award revenues are reported principally in the Town's financial statements as intergovernmental revenues.

Note 4. Relationship to Federal Financial Reports

Amounts reported in the accompanying schedule agree or can be reconciled with the amounts reported or to be reported in the federal financial reports.

Note 5. Pass-Through Entities' Identifying Number

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards shows, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Town has determined that no identifying number is assigned for the program, or the Town was unable to obtain an identifying number from the pass-through entity.

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weaknesses? Yes x No

Significant deficiencies identified not considered to be material weaknesses? Yes x None Reported

Non-compliance material to financial statements noted? Yes x No

Federal Awards

Internal control over major programs:

Material weaknesses? Yes x No

Significant deficiencies identified not considered to be material weaknesses? Yes x None Reported

Type of auditor's report issued on compliance over major programs Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) Yes x No

Identification of Major Programs:

<u>Assistance Listing</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction
97.039	Hazard Mitigation Grant Program (HMGP)

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low risk auditee? Yes x No

TOWN OF LOS GATOS, CALIFORNIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.

TOWN OF LOS GATOS, CALIFORNIA
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Section II - Financial Statement Findings

No findings noted.

Section III - Federal Award Findings and Questioned Costs

No findings noted.



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 04/13/2026

ITEM NO: 4

Item 4.

DATE: April 6, 2026
TO: Finance Commission
FROM: Chris Constantin, Town Manager
SUBJECT: Receive the Fiscal Condition Assessment and Fiscal Impact Analysis for Proposed and Planned Growth Memorandums and Provide Feedback for the Town Council.

RECOMMENDATION:

Receive the Fiscal Condition Assessment with Five-Year and Long-Term Financial Projections and Fiscal Impact Analysis for Proposed and Planned Growth Memorandums and provide feedback for the Town Council.

BACKGROUND:

In December 2025, the Town began work with NHA Advisors with sub-contract support from Raftelis Financial Consultants and Willdan. Raftelis is leading the first study with the development of a baseline long-term financial model. Willdan is supporting the second study, focusing on fiscal impact analysis that incorporates proposed and planned growth based on the Housing Element Plan and General Plan, with sensitivity analysis regarding the percentage of new units designated as affordable. Both studies will support the future Asset, Liability Management (ALM) study.

DISCUSSION:

A preliminary Fiscal Condition Assessment with Five-Year and Long-Term Financial Projections and Fiscal Impact Analysis for Proposed and Planned Growth was presented to the Finance Commission at their February 2, 2026, meeting. The Commission requested an assumptions memo for the five-year and long-term forecast and changes to methodology for the study focused on the fiscal impact of proposed and planned growth based on the Housing Element.

PREPARED BY: Kristina Alfaro
Administrative Services Director

Reviewed by: Town Manager and Town Attorney

PAGE 2 OF 2

SUBJECT: Receive the Fiscal Condition Assessment and Fiscal Impact Analysis for Proposed and Planned Growth Memorandums

DATE: April 6, 2026

Memos were posted to the Town's Finance website on March 18, 2026, to allow sufficient time for review. Both memos are also attached.

CONCLUSION:

Receive both memos and provide feedback for the Town Council.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. Fiscal Condition Assessment with Five-Year and Long-Term Financial Projections Assumption Memo
2. Updated Fiscal Impact Analysis for Proposed and Planned Growth

MEMO

To: Los Gatos Executive Leadership Team
From: Raftelis
Date: March 18, 2026
Re: Los Gatos Long-Term Financial Plan – Detailed Assumptions

Background

The Town of Los Gatos (Town) issued a request for proposals to conduct three studies:

1. Fiscal Condition Assessment with Five-Year and Long-Term Financial Projections
2. Fiscal Impact Analysis for proposed and planned growth
3. An Asset Liability Management (ALM) Study

The contract was awarded to NHA Advisors with sub-contract support from Raftelis Financial Consultants and Willdan. Raftelis is leading the first study with the development of a baseline long-term financial model. Willdan is supporting the second study, focusing on fiscal impact analysis that incorporates proposed and planned growth based on the Housing Element Plan and General Plan, with sensitivity analysis regarding the percentage of new units designated as affordable. Both of these studies will support the future ALM study. Work began in earnest in December 2025, with ongoing coordination from each consulting firm.

Development of a long-term financial model began with a detailed review of the Town’s financial data, policies, and economic factors influencing the fiscal outlook. This included working closely with Town Finance staff to understand their budgeting and forecasting methodology. As the model was being developed, Raftelis conducted multiple check-in calls with the Town’s project team to review progress and vet key assumptions. This iterative communication process continues as we refine assumptions and review underlying trends. Most recently, the Raftelis project team presented preliminary assumptions and findings to the Town’s Finance Commission on February 2, 2026.

The purpose of this memo is to provide a detailed overview of the data sources, assumptions, and methodology that went into the development of the Town's long-term financial plan, including changes and revisions that were incorporated based on feedback from the Finance Commission presentation in February. Project next steps include sharing the preliminary outlook with Town Council after the Finance Commission is comfortable with the detailed assumptions and methodology used to develop the baseline financial model.

Project deliverables will include the model itself, which was developed in Microsoft Excel™ and will be provided to Town staff as a dynamic tool that can be used for the annual forecast and budget development process. Once the baseline assumptions and outlook have been fully reviewed and vetted, Raftelis will work with Town staff and the Finance Commission to develop scenarios that support anticipated development activity as well as asset management and infrastructure investment considerations. A comprehensive report detailing methodology, assumptions, and various scenarios will be provided at the conclusion of the project.

Methodology

The baseline General Fund forecast assumes normalized historical patterns will continue without major policy intervention. Normalized historical patterns leverage actual revenue and expenditure trends, after adjusting for one-time events or anomalies that may skew expected future results. Budget-to-actual results remain a relevant metric to understand how the Town has historically estimated major revenue and expenditure categories, including recent adjustments to the base budget that may be more in-line with actual performance.

The primary data source used to build the model is a line-item record of budgeted and actual revenues and expenditures by fund from Fiscal Year (FY) 2019 through FY2026, provided by Town Finance staff. Other information was also used to develop the model, including personnel history, collective bargaining agreements, economic and population data, and permit data. Further sections of this memo provide more detail on the specific information used to inform each assumption.

The aim of this model is to develop a robust forecast for future revenues and expenditures based on the best-available data. It uses a trend-based approach to determine the long-term direction of the underlying data. This deviates from the annual budget process where the primary objective is making near-term adjustments to maintain fiscal balance. The projections in this model are not intended to represent actual revenues and expenditures, but instead to serve as a planning tool for the Town's leadership and governing bodies to frame high-level policy and investment considerations.

The baseline model was also built to balance accuracy with usability. It is meant to be a tool used by staff for years to come, and the more complex the model the more difficult it is to use and the more prone it is to errors. This is the reason why the project team, for example, looks at aggregate data on assessed value and new construction to estimate property taxes, rather than more specific data by census tract, because collecting and maintaining that data would be a significant burden on Town staff. Aggregate data also allows for better identification of trends that may not be apparent at a more granular level. Where appropriate, granular level data such as new housing units for a potential new development can be used in scenario analysis to understand the underlying adjustment or change in assumption required to compare with the baseline forecast.

Model Structure

The model focuses on forecasting General Fund expenditures and revenues over a 10-year period, from FY2027 through FY2036. The FY2026 budget is the initial base year for the model; however, the model calculates an estimated 2026 base that considers actual revenue and expenditure trends and will project from this base for the out years. This allows staff to monitor and update actual performance throughout the fiscal year.

For the purposes of this model, all Measure G Sales Tax revenue is considered part of the General Fund.

Revenue and Operating Expenditure Categories

The model forecasts operating expenditures and revenues by category. Revenue categories largely align with categories used in the Town’s audited Annual Comprehensive Financial Report (ACFR), Budget Document, and State Controller’s Office required Town Financial Transactions Report (FTR). In some cases more granular categories were developed, in consultation with Town staff. The Assumptions by Category section of this memo will identify those categories that may not align exactly with existing financial reporting. Generally, categories were selected with the intention of balancing accuracy with the model’s ease of use.

Categories of revenue and operating expenditures used in the model are listed below.

Table 1: Revenue and Operating Expenditure Categories in Model

Revenues	Operating Expenditures
<ul style="list-style-type: none"> • Property Tax • Vehicle and License Fee (VLF) Backfill • Property Tax • Sales and Use Tax (Non-Measure G) • Sales and Use Tax (Measure G) • Licenses & Permits • Franchise Fees • Town Services • Business License Tax • Transient Occupancy Tax • Intergovernmental • Fines & Forfeitures • Investment Income • Other Revenue • Transfers In 	<ul style="list-style-type: none"> • Personnel- Salary • Personnel- Overtime • Personnel- California Public Employees' Retirement System (CalPERS) • Personnel- Other Post-Employment Benefits (OPEB) Pay As You Go • Personnel- Other Benefits • Personnel- Vacancy Savings • Grants and Awards • Materials and Supplies • Utilities • Purchased Services • Other Operating Expenditures • Internal Service Charges • Debt Service • Transfers Out- New Capital • Transfers Out- Other (including Pension Trust)

Excluded Revenues and Expenditures

The model uses actual and budgeted revenue and expenditure data as provided by Town staff. This line-item data was mapped to the higher level categories outlined in this memo. Raftelis continues to work with the Town to reconcile actual expenditures provided in the line-item financial system detail with audited financial statements and budget documents. The ACFR reports by function (department), therefore, a direct reconciliation by expenditure classification as structured for the forecast model is not possible. This includes identifying accounts and/or one-time amounts to exclude for normalizing trends. Specific accounts and one-time amounts are identified below; however, this list may continue to change as we refine our understanding of the underlying data and chart of account/fund structure with Town staff.

Excluded accounts typically relate to non-cash or Generally Accepted Accounting Principles (GAAP) adjustments such as depreciation and mark-to-market adjustments. This allows for a forecast that reflects actual funds available for the Town’s use.

Table 2: “Non-Cash” Revenue and Expenditure Accounts Excluded from Model

Account Description	Actual Amount
Revenue 45218 - GASB31 to Market	
2019	\$643,911
2020	\$1,092,564
2021	(\$780,399)
2022	(\$2,015,501)
2023	\$3,197
2024	\$1,712,246
2025	\$1,201,824
Expenditures 62142 - Depreciation Expense¹	
2019	\$102,250
2020	\$101,693
2021	\$101,693
2022	\$101,693
2023	\$101,693
2024	\$77,081,050
2025	\$5,914,417

Additionally, one-time revenues and operating expenditures are not considered in the model, because it is not assumed that they would carry forward into future years. This includes American Rescue Plan Act funds that the Town received from 2021 – 2025. The remaining one-time revenues and expenditures excluded from the model are listed in the table below.

Table 3: One-Time Revenues and Expenditures Excluded from Model

Model Category	Account Number	Fiscal Year(s)	Amount	Town Chart of Accounts Description
Revenues				
Licenses and Permits	42416	2022 Actuals	\$1,200,000	Contra revenue for bmp
Intergovernmental	43210	2021 Actuals	\$388,181	CARES Act Coronavirus Relief
Intergovernmental	43211	No actual funds logged	\$0	American Rescue Plan Act 2021
N/A – Capital Fund	45946	2023 Actuals	\$1,565,000	Insurance Settlement
Other Sources	45949	2023-2025 Actuals	\$45,323	Misc. Non-Operating Revenues
Town Services	45961	2025 Actuals	(\$344,388)	Contra revenue for bmp
Transfers In	49411	2025 Actuals	\$250,000	Community Grants
Expenditures				
N/A	67109	No actual funds logged	\$0	ARPA- American Rescue Plan Act
Grants and Awards	67506	2022 Actuals	\$1,200,000	20 dittos In BMR housing loan
Materials and Supplies	82202	2023, 2025 Actuals	\$0	Land Acquisition
Purchased Services	81505	2024 Actuals	\$706,713	Subscriptions - GASB 96

¹ Depreciation expense is not recorded to the General Fund. Amounts represent total for all Town funds, including Internal Service Funds and Development Agency Fund.

Capital

The model also estimates future capital costs for capital projects, vehicles and equipment, and technology. Costs are estimated based on the Town’s adopted Capital Improvement Program (CIP), as well as equipment and technology replacement schedules provided by Town staff. The model projects the amount of money transferred from the General Fund to finance these investments, based on past history and Town direction. It assumes no new debt to support capital maintenance needs, although the model allows users to project the potential impact of new debt.

It is important to distinguish capital needs assumed in the baseline model from potential scenarios. For the baseline forecast, ongoing maintenance and replacement needs for existing assets are factored in. If the Town’s historical funding for maintenance and replacement have not kept pace with actual need then there is inherent deferred maintenance. A catch-up or higher level of investment to address any deferred maintenance would be a potential scenario. A large-scale capital investment required to support anticipated development would also be considered a scenario.

Assumptions by Category

The following sections detail assumptions used to project a 10-year General Fund baseline forecast, including projected revenues, operating expenditures, and transfers to other funds.

Revenues

The following sections detail the model’s revenue assumptions by category. The sections discuss the model’s assumptions for revenues in the base year of the model, FY2026, as well as assumptions for how that amount is projected to change over time during the model period.

The following table compares the categories used in the model to the categories reported in the Town’s ACFR and provides context for any variation.

Table 4: Model vs. ACFR Revenue Categories

ACFR Category	Model Category	Comments
Property Taxes	Property Tax VLF Backfill	VLF Backfill is separated because it is revenue from the State, and so forecasts may vary
Sales Taxes	Sales and Use Tax (Non-Measure G) Sales and Use Tax (Measure G)	Separated due to potential differences in forecasts
Transient Occupancy Taxes	Transient Occupancy Tax	
Licenses & Permits	Licenses & Permits Town Services	Separated based on the Town’s internal categories and to allow for more specific forecasts
Intergovernmental	Intergovernmental	
Fines and Forfeitures	Fines & Forfeitures	
Franchise Fees	Francise Fees	
Interest	Interest	
Other Taxes Use of Property Other	Business License Tax Other Sources	Business Licenses Tax separated to allow for forecasting based on economic conditions. Other categories combined for model usability.
Transfers In	Transfers In	

Property Tax

The following table illustrates the Town’s historical trend for actual property tax revenue collected, as well as the average annual change.

Table 5: Property Tax Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$13,636,099	N/A
2020	\$14,454,513	6.0%
2021	\$15,826,162	9.5%
2022	\$16,899,618	6.8%
2023	\$18,187,388	7.6%
2024	\$19,321,147	6.2%
2025	\$20,157,765	4.3%
Average		6.7%

2026 Budget: \$21,450,971

Base Year Estimate: \$21,450,971

Historically, General Fund revenue has been 5.6% higher than budget, but in the most recent year actual revenues were close to budget. The model maintains the 2026 budget as the base for forecasting property tax growth over the next ten years.

Potential Revenue Risks and Restrictions

California law restricts the amount of funds that local governments can collect through property tax, primarily through two mechanisms summarized below:

- Proposition 13 was adopted in 1978. It limits property tax assessed value increases at 2% per year and limits property tax revenue to 1% of assessed value (unless a higher rate is approved by voters). Properties can only be assessed at market value for new construction or when a property changes ownership.
- Proposition 4, commonly known as the Gann Limit, was adopted in 1978 and caps local revenue at 1979 expenditure levels, adjusted annually based on population and income.
- Proposition 98, adopted in 1992, requires each local government to set aside a portion of its tax revenues to ensure that school districts meet minimum funding levels.² Between FY2019 and FY2025, an average of 11.9% of Town property tax revenue was designated for ERAF. However, it is important to note that currently any ERAF funding not needed to meet school funding minimums has been returned to the Town. If the State changes this policy it would reduce total property tax funding available to the Town.

Annual Change Assumption: 5.2%, on average

Estimates of future sales tax revenue were based on several factors, selected to account for State revenue restrictions and available information.

The primary information source used to estimate future property tax revenue was data from Santa Clara County on historical valuation trends. As stated above, Proposition 13 restricts changes in valuation except in cases of new construction or when property is bought and sold, so the team evaluated trends separately for new construction, changes in ownership, and other properties.

² The State is responsible for ensuring that schools receive at least minimum funding. The ERAF allocation reduces the State’s funding obligation.

The team used trends for each of these categories, as well as reported FY2026 valuations and data prepared by a separate company, HdL Companies (HdL), on historical trends in the median value of new construction and the median sales price of homes, to estimate total valuation per year over the course of the model period. The model also assumes that 15% of property tax funds in the base year will be allocated to ERAF, based on Santa Clara County FY2026 budget allocations³.

Finally, the model calculates the estimated Gann appropriation limit each year, based on a State law limiting property tax revenue that can be collected based on changes in population and income. The team estimated the Gann limit for each model year based on historical population and income trends reported by the United States Census Bureau, and verified that the projected revenue did not hit that limit.

The annual change in projected revenue based on these assumptions varies from year to year based on the estimate for each valuation component: new construction, home sales, ERAF, and base valuation. On average, it increases approximately 5.2% per year between FY2027 and FY2036. The assumed growth for new construction considered the Town’s Housing Element Plan and anticipated new housing units outlined in that plan. After further discussion with staff and Finance Commission members, there is uncertainty in how those units may be realized over time and whether they will meet state required affordability metrics. As such, the baseline model maintains a steady growth assumption for new residential development but relies on historical trend with a more moderate long-term outlook than the post-pandemic era given recent softness in real estate market activity.

The following table summarizes model assumptions.

Table 6: Property Tax Performance History and Assumptions by Component

Property Tax Component	Five Year Average Annual Change ⁴	Assumed Portion of Revenue	Assumed Annual Change	Comments
New Construction	12.5%	0.3%	0.0%	Assumed flat to be conservative due to variations in the change of value from year to year
Changes in Ownership	17.1%	2.8%	4.0%	Reduced to be conservative due to variations in the change of value from year to year
ERAF	19.1%	14.9%	6.9% ⁵	Based on the average of the past two years to normalize post-pandemic volatility
Base Valuation	6.2%	81.9%	5.6%	Based on the average of the past two years to normalize post-pandemic volatility

Vehicle and License Fee (VLF) Backfill Property Tax

The VLF backfill is a payment from the State of California intended to reimburse local governments for losses due to a State VLF reduction. The annual amount allocated is based on the Town’s assessed property valuation. The following table illustrates the category’s historical trend for actual revenue collected, as well as the average annual change.

³ The County estimates a \$3.2 million allocation to ERAF in 2026.

⁴ Based on Santa Clara County valuation reports

Table 7: VLF Backfill Property Tax Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$3,685,247	N/A
2020	\$3,875,914	5.2%
2021	\$4,052,672	4.6%
2022	\$4,229,462	4.4%
2023	\$4,555,700	7.7% ⁶
2024	\$4,906,019	7.7%
2025	\$5,109,100	4.1%
Average		5.6%

2026 Budget: \$5,377,328

Base Year Estimate: \$5,557,685

Historically, since FY2019, General Fund revenue has consistently outperformed budget by approximately 3.4%. The model assumes the FY2026 base amount will be higher than the current budgeted amount by this average variance.

Potential Revenue Risks and Restrictions

VLF revenue is allocated from the State, and is therefore subject to changes in State law. A future legislature could opt to reduce or eliminate this revenue source.

Annual Change Assumptions: 5.4%

VLF revenue is allocated based on property value. The project team used the property value assumptions discussed in the Property Tax section above to project VLF revenue. The model assumes a 5.4% average annual property value increase over the next 10 years.

Sales and Use Tax

The Town has two sources of sales tax revenue:

- The Town, like all California municipalities, receives 1% of the State’s base sales tax rate (7.25%)
- The Town has adopted an additional 1/8 cent general sales tax (Measure G)

The following tables illustrate the category’s historical sales tax revenue trends.

⁶her increases in FY2023 and 2024 are aligned with higher increases in the City’s property valuation in those years.

Table 8: Sales and Use Tax (non-Measure G) Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$7,930,021	N/A
2020	\$6,535,034	-17.6%
2021	\$6,794,218	4.0%
2022	\$7,177,597	5.6%
2023	\$7,507,068	4.6%
2024	\$6,795,037	-9.5%
2025	\$6,992,336	2.9%
Average		-1.7%

Table 9: Sales and Use Tax (Measure G) Revenue History⁷

Year	Actual Revenue	Annual Percent Change
2019	\$0	N/A
2020	\$0	N/A
2021	\$1,139,386	N/A
2022	\$1,306,076	14.6%
2023	\$1,299,409	-0.5%
2024	\$1,276,698	-1.7%
2025	\$1,338,642	4.9%
Average		4.3%

2026 Budget:
Non-Measure G: \$6,639,081
Measure G: \$1,298,825
\$7,937,906

Base Year Estimate: Non-Measure G: \$7,780,826
Measure G: \$1,329,000
\$9,109,826

The Town engaged a separate firm, HdL, to forecast sales tax in FY2026. HdL’s forecasts were used to inform the base estimate for 2026 as well as future growth detailed below. There is a significant increase in the non-measure G base estimate for 2026. This is driven by the most recent projections from HdL, which include proprietary, confidential local economic data to inform estimates. This information was not known at the time of budget adoption.

Potential Revenue Risks and Restrictions

Sales tax revenue is closely tied to economic conditions. An economic downturn would have a significant impact on revenue in this category. Additionally, the 1% of the State’s sales tax revenue is defined by State legislation, and is subject to change by the Legislature.

⁷ includes all Measure G revenue, not just the revenue allocated to the General Fund.

Annual Change Assumptions: 2.0% (weighted average)

Projections of sales tax revenue are based on industry data as well as trend projections prepared by the City’s economic advisor. The model projects revenue by industry to allow each industry’s revenue trends to be separately modeled.

Previously, an Economic Review prepared for the Town by an outside firm, MuniServices, provided information on the Town’s historical sales tax revenue trends by industry along with estimates for future sales tax collection. As the Town transitions to a new economic advisor (HdL), Raftelis relied on both historical MuniServices reports as well as the first, and most recent, HdL report to establish a framework for detailing the various components that comprise overall sales tax revenue collection.

The industry components of sales tax revenue are detailed in the table below. Historically, the largest generators of sales tax revenue have been the Food and General Retail industries, and they are assumed to remain the largest generators moving forward.

Table 10: Sales Tax Revenue Historical Performance and Assumptions by Industry, as Reported by MuniServices

Industry	Five Year Average Annual Change	Assumed Portion of Revenue ⁸	Assumed Annual Change	Comments
Food Products	5.4%	28.7%	2.0%	Based on HdL projection
General Retail	-1.6%	21.1%	2.0%	Based on HdL projection
Transportation	-8.9%	19.6%	2.5%	Based on HdL projection, reduced slightly based on past history (HdL generally projects 3.0-3.5% per year)
County Pool	-4.7%	19.2%	2.0%	Based on HdL projection, reduced slightly based on past history (HdL generally projects 3.0% per year)
Business to Business	0.3%	4.8%	1.0%	Based on HdL projection, reduced slightly based on past history (HdL generally projects 2.2-2.8% per year)
Misc.	-33.0%	3.9%	0.0%	Kept flat due to past volatility
Construction	7.5%	2.6%	2.5%	Based on HdL projection

The historic volatility of sales tax collections and dynamic local economic conditions led the project team to take a conservative approach to forecasting the Town's second-largest revenue source. The baseline model incorporates the significant increase to 2026 base estimates and then uses a lower annual growth rate assumption compared to HdL. The first report from HdL suggests higher growth across each of the industries noted in the table above during 2026-2027 and then settles to a blended average that is slightly below 3%. Some industries like transportation, which have experienced decline in past years due to higher use of electric vehicles, and construction, assume a higher rate of growth (2.5%) because of known development activity expected to have a positive influence on collections. Other sources like general retail and food products rely more on regional inflation trends for cost of goods and no significant variation or increase to the volume of goods purchased from historical experience.

⁸ based on five-year historical average for that industry’s representative share of overall sales tax revenue to the Town.

Licenses & Permits

The following table illustrates the Town’s historical Licenses & Permits revenue, as well as the average annual change. The significant revenue increase in FY2025 is due to a change in how the Town accounts for Solid Waste revenue; before FY2025, the Town classified it as a Franchise Fee. The revenue collected by the Town from the Solid Waste Joint Powers Agreement (JPA) also increased from prior years as a result of a recently updated valuation report used to determine payment amount.

Table 11: Licenses & Permits Actual Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$3,044,490	N/A
2020	\$2,673,706	-12.2%
2021	\$3,003,475	12.3%
2022	\$3,614,650	20.3%
2023	\$3,283,848	-9.2%
2024	\$3,993,247	21.6%
2025	\$6,681,657	67.3%
Average		16.7%

2026 Budget: \$6,322,712

Base Year Estimate: \$6,322,712

Historically, actual General Fund revenue has been 12.1% higher than budget, on average, but there has been significant volatility after the pandemic. This is coupled with the Solid Waste revenue transfer, updated valuation, and in the 2026 budget changes to permit fees that also increased overall revenue collected in this category. The 2026 budget is in line with most recent 2025 actuals and is used as the base estimate in the forecast model.

Potential Revenue Risks and Restrictions

The amount of License & Permit revenue received by the Town can vary based on external factors, such as the amount of development occurring in the community, but the Town also has the ability to revise fees as needed to cover costs. Additionally, less revenue also means a lower cost to process license and permit applications.

Annual Change Assumptions: 0.4%

The types of licenses and permits issued vary from department to department, so the project team used revenue history by department to estimate future trends. For the Community Development Department, historical permit trends were also used to inform the projection. Other departments’ revenue is projected based on past history, due to lack of additional available data.

Although Community Development Department Licenses & Permit revenue has generally been increasing in recent years, with an average increase of 19.4% between FY2019 and FY2025, the number and value of permits has been decreasing, as illustrated in the table below. Because of this decline, it is assumed that Community Development Licenses & Permit revenue will have minimal growth over the next ten years.

Table 12: Building Permit History⁹

Year	Number of Permits	Annual Percent Change	Permit Value	Annual Percent Change
2021	1,196	N/A	\$148,527,983	N/A
2022	1,261	5.4%	\$156,227,403	5.2%
2023	1,202	-4.7%	\$92,855,563	-40.6%
2024	1,019	-15.2%	\$94,598,614	1.9%
2025	980	-3.8%	\$103,021,665	8.9%
Average		-4.6%		-6.1%

The following table illustrates assumed annual Licenses & Permits revenue change by department. Police and Solid Waste (non-departmental) revenue are assumed to be flat with the most recent solid waste valuation adjustment reflected in the 2026 base.

Table 13: Licenses & Permits Revenue Assumptions by Department

Department	Five Year Average Change	Average Portion of Revenue	Assumed Annual Change	Comments
Administrative Services	91.7%	0.1%	2.0%	Assumed lower due to volatility
Community Development	19.4%	59.0%	0.5%	Assumed lower due to permit trends
Police	-6.9%	1.8%	0.0%	Assumed flat due to volatility
Parks and Public Works	10.0%	24.8%	0.5%	Assumed lower due to volatility
Non-Departmental	1663.2%	14.2%	0.0%	Significant increase reflects Solid Waste revenue- assumed flat due to volatility

Franchise Fees

The following table illustrates the Town’s historical Franchise Fee revenue, as well as the average annual change. The significant revenue decrease in FY2025 is due to a change in how the Town accounts for Solid Waste revenue; before FY2025, the Town considered it a Franchise Fee, but is now categorized under Licenses & Permits.

Table 14: Franchise Fees Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$2,475,916	N/A
2020	\$2,495,792	0.8%
2021	\$2,499,463	0.1%
2022	\$2,822,515 ¹⁰	12.9%
2023	\$3,074,624	8.9%
2024	\$2,547,012	-17.2%
2025	\$1,057,484	-58.5%
Average		-8.8%

⁹ Provided by Town staff

¹⁰ Increased revenues in FY2022 and 2023 were largely due to increases in Solid Waste revenue, which went from \$1.6 million 2021 to \$1.9 in FY2022, then to \$2.1 million in FY2023, only to reduce to \$1.5 million in 2024.

2026 Budget: \$1,043,730

Base Year Estimate: \$1,043,730

Historically, General Fund revenue has been 8.3% higher than budget; however, the recent base adjustment to remove solid waste JPA revenue impacts the future growth assumptions. For the baseline model, the 2026 budget is used as the initial base year estimate since it is in line with actual revenue collected in 2025 after the solid waste revenue transition.

Potential Revenue Risks and Restrictions

Franchise fee revenue depends on private companies’ use of public infrastructure and can vary depending on the companies’ needs and economic conditions.

Annual Change Assumptions: 1.7%

When Solid Waste revenue is not considered, annual increases in past years have ranged from 0.3% to 8.7%, as illustrated below. The project team believes that past history is the best available indicator to predict future revenue. Annual increases are assumed at 1.7%, which is the average over the past seven years when the outlier year, 2023, is removed.¹¹

Table 15: Franchise Fees Actual Revenue History (No Solid Waste Revenue)

Year	Actual Revenue	Annual Percent Change
2019	\$892,980	N/A
2020	\$898,636	0.6%
2021	\$925,621	3.0%
2022	\$941,647	1.7%
2023	\$1,023,289	8.7%
2024	\$1,053,827	3.0%
2025	\$1,057,484	0.3%
Average		2.9%

Town Services

This revenue category essentially reflects charges for services where the Town has some cost recovery component. The two highest-revenue categories of Town services, accounting for more than \$1 million in revenue each in 2025, were policing services for Monte Sereno and building plan reviews.

The following table illustrates the category’s historical revenue, as well as the average annual change.

Table 16: Town Services Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$4,440,606	N/A
2020	\$4,373,603	-1.5%
2021	\$4,778,695	9.3%
2022	\$5,310,271	11.1%

¹¹ The increase is largely driven by a 23% increase in PG&E Franchise Fee revenues for that year.

Year	Actual Revenue	Annual Percent Change
2023	\$4,631,325	-12.8%
2024	\$5,913,520	27.7%
2025	\$5,749,895	-2.8%
2026	N/A	N/A
Average		5.2%

2026 Budget: \$5,736,735

Base Year Estimate: \$5,736,735

Actual revenue has averaged about \$5 million annually, outperforming budget by approximately 12.1% on average. In 2026 the Town made a significant adjustment to the base budget that is reflective of actual collections the past two years. This is the base estimate used in the forecast.

Potential Revenue Risks and Restrictions

Like sales tax, this is a customer-driven revenue source that has experience greater volatility over the past seven years. The Town has maintained a conservative budget approach for this revenue source given the difficulty predicting the volume of customer activity from year to year.

Annual Change Assumptions: 3.0%

The types of services offered vary from department to department, so the project team used revenue history by department to estimate future trends. In many departments revenue has varied significantly from year to year. The projections in the model are intended to smooth out this growth from year to year, while also generally assuming a conservative projection to avoid over-estimating revenue with future economic uncertainty.

The following table illustrates assumed annual revenue change by department.

Table 17: Town Services Revenue Historical Performance and Assumptions by Department

Department	Five Year Average Change	Average Portion of Revenue	Assumed Annual Change	Comments
Administrative Services	8.9%	2.2%	5.0%	Assumed lower than average due to past variance
Community Development	1.7%	40.1%	2.0%	Assumed in line with past average
Police	7.4%	24.2%	5.0%	Assumed lower than average due to past variance
Parks and Public Works	9.2%	30.9%	3.0%	Assumed lower than average due to past variance
Non-Departmental	-11.3%	2.6%	0.0%	Assumed flat due to past variance

The following table compares the highest-revenue line items that are categorized as Town Services versus those categorized as License & Permits.

Table 18: Town Services and Licenses & Permits Top Revenue Source, FY2025

Town Services	Licenses and Permits
PD Services for Monte Sereno- \$1,135,514	Wasteholder Encroachment Fee (Solid Waste)- \$2,297,703
Plan Check- \$1,043,926	Building Permit Fees- \$2,205,805
Plan Check Building- \$529,251	Planning Permits- \$902,524

Town Services	Licenses and Permits
Engineering Review Surcharge- \$323,972	Encroachment Permits- \$459,831
Environmental Impact- \$277,397	Tree Removal Permits- \$155,535

Business License Tax

The following table illustrates the Town’s historical Business License Tax revenue, as well as the average annual change. The revenue has significant year-to-year variation due to economic factors as well as delays in revenue collection. Revenue from one of the largest businesses in the Town was delayed due to an appeal of the tax rate, for example, which is one of the reason for the significant variation in recent years.

Table 19: Business License Actual Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$1,526,894	N/A
2020	\$1,357,080	-11.1%
2021	\$1,386,943	2.2%
2022	\$1,481,667	6.8%
2023	\$2,361,862	59.4%
2024	\$1,519,960	-35.6%
2025	\$2,975,721	95.8%
Average		19.6%

2026 Budget: \$2,493,992

Base Year Estimate: \$2,470,000

The Town commissioned HdL to project future Business License Tax revenue. The firm created aggressive, conservative, and moderate projection scenarios. Under the moderate scenario, a total of \$2.47 million in revenue is estimated for FY2026. HdL bases this forecast on actual payments received in the beginning of the fiscal year as well as projected trends for the remaining months. The forecast leverages this estimate as the 2026 base.

Potential Revenue Risks and Restrictions

The variation from year to year illustrated in the table above illustrates the volatility of this revenue source. It is influenced by economic trends as well as Town tax policy, potential court challenges, and other external factors.

Annual Change Assumptions: 1.5%

Business License Tax revenue has increased significantly in the past years, but there has also been a great deal of variation from year to year. HdL acknowledges this volatility in its projections and forecasts three scenarios: an aggressive estimate, a moderate estimate, and a conservative estimate. HdL’s assumption for a moderate Business License Tax growth rate is 1.5% per year, and this assumption is used for the model.

This estimate may be somewhat conservative when compared against past trends in the Consumer Price Index (CPI) for the San Francisco region. The CPI can be considered an indicator of long-term growth, and the past five years of CPI growth have averaged 3.8% per year, as illustrated below. However, we believe that HdL’s estimate is appropriate given future economic uncertainty.

Table 20: San Francisco Region CPI History

Year	Annual CPI: All Costs	Percent Change
2020	300.084	1.7%

Year	Annual CPI: All Costs	Percent Change
2021	309.721	3.2%
2022	327.06	5.6%
2023	339.05	3.7%
2024	348.417	2.8%
Average		3.8%

Transient Occupancy Tax

The Town charges a Transient Occupancy Tax on hotels and other short-term lodging. Revenue is based on the nightly room rate and number of days at each establishment. The following table illustrates the category’s historical revenue, as well as the average annual change.

Table 21: Transient Occupancy Tax Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$2,692,043	N/A
2020	\$1,869,685	-30.5%
2021	\$1,044,820	-44.1%
2022	\$1,895,064	81.4%
2023	\$2,228,190	17.6%
2024	\$2,367,653	6.3%
2025	\$2,417,630	2.1%
Average		5.4%

2026 Budget: \$2,422,390

Base Year Estimate: \$2,412,087

Actual Transient Occupancy Tax revenues have been an average of 10.4% higher than budgeted over the last seven years. However, one of the hotels in the community closed in 2026, and this change will likely reduce the amount of revenue collected from the Transient Occupancy Tax. The Town provided us with the revenue history per establishment, and based on this we calculated that the closure will mean a reduction of approximately \$260,000 in FY2026. Based on these assumptions, we estimate a base year revenue of approximately \$2.4 million.

Potential Revenue Risks and Restrictions

Transient Occupancy Tax revenue varies significantly from year to year, as illustrated above. It is tied to the level of tourism and business travel in the community, which is heavily influenced by economic trends. Additionally, the number of hospitality establishments in the Town also influence the amount of revenue generated.

Annual Change Assumptions: 3.0%

Transient Occupancy Tax revenue is projected forward based on the most recent two years of available historical data on revenue by establishment. Older data is not used due to the impact of the pandemic on hotel occupancy. Data for the establishment that closed was not considered when projecting future trends.

Intergovernmental Revenue

The Town receives some intergovernmental revenue, such as state and federal grants. The following table illustrates the category’s historical revenue, as well as the average annual change.

Table 22: Intergovernmental Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$945,191	N/A
2020	\$1,094,075	15.8%
2021	\$1,185,516	8.4%
2022	\$1,263,352	6.6%
2023	\$1,553,397	23.0%
2024	\$1,157,225	-25.5%
2025	\$1,357,593	17.3%
Average		7.6%

2026 Budget: \$838,936

Base Year Estimate: \$1,300,000

Actual intergovernmental revenue has been an average of 29.6% higher than budgeted revenue over the past seven years. The budget in FY2026 is somewhat lower than the past, at \$838,936 compared to more than \$950,000 in previous years. Political and economic uncertainty justifies a lower budget estimate, but the model seeks to normalize revenues over the 10-year projection period. For this reason, we are assuming a base year revenue of \$1.3 million to align with previous years’ actual revenue.

Potential Revenue Risks and Restrictions

Intergovernmental revenue is dependent on the state of the economy, as well as the philosophies and priorities of the governments in power. These external factors are difficult to predict, which is one reason why revenues are assumed to be flat for this category as discussed below.

Annual Change Assumptions: 0.0%

Intergovernmental revenue is assumed to be flat due to past volatility and to political uncertainty on the state and federal levels.

Fines & Forfeitures

The Town receives revenue from fines levied for infractions, as well as asset forfeitures. The following table illustrates the category’s historical revenue, as well as the average annual change.

Table 23: Fines & Forfeitures Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$510,266	N/A
2020	\$271,117	-46.9%
2021	\$103,467	-61.8%
2022	\$319,170	208.5%
2023	\$416,951	30.6%
2024	\$480,634	15.3%
2025	\$420,127	-12.6%
Average		22.2%

2026 Budget: \$315,200

Base Year Estimate: \$440,000

Actual intergovernmental revenue has consistently been higher than budgeted in recent years, with an average variance of 27.7%. To estimate a reasonable base year revenue, the team averaged the actual fine & forfeiture revenue for the past three years, which translates to approximately \$440,000. This is somewhat higher than the budgeted figure for FY2026 but was chosen to establish a reasonable basis for future projections, beyond year-over-year volatility.

Potential Revenue Risks and Restrictions

Fines and forfeiture revenue can vary significantly, as illustrated above, because it depends on the frequency with which individuals incur fines and other penalties. The Town does have some ability to influence revenue by adjusting the amount of the fines and by determining the level of enforcement.

Annual Change Assumptions: 0.8%

Revenue in this category is largely influenced by the frequency of fines incurred, which can vary significantly from year to year. It is reasonable, however, to assume that fines incurred with increase over time somewhat proportionally to population. The average population growth over the past two years of available United States Census data (2023 and 2024) was 0.8%, so it is assumed that fine & forfeiture revenue will increase by 0.8% per year.

It is important to reiterate that revenue in this category could be influenced by policy and practice changes, such as new or increased fines or increased enforcement. The model assumes no changes in fines or enforcement levels in the base scenario, but users can project the impact of potential changes moving forward.

Investment Income

The Town also receives income from funds it has invested. Investment income for the General Fund model excludes earnings from the pension trust designated to support the Town’s long-term pension liability. Earnings are generated from operating cash accounts as well as pooled cash funds invested in the state Local Agency Investment Fund (LAIF). The interest rate environment has gone through a period of significant change over the past several years, emerging from near 0% rates for cash-related investments to spikes in interest rates to help curb inflation after the pandemic, and most recently steady reductions from the Federal Reserve. The following table illustrates the category’s historical revenue, including GAAP-based revenue that includes required mark-to-market non-cash accounting adjustments and interest income without this adjustment as a proxy for cash-based collections.

Table 24: Investment Income Revenue History

Year	Actual Revenue	Annual Percent Change	Actual Revenue (No Mark-to-Market Adjustment)	Annual Percent Change
2019	\$1,445,640	N/A	\$801,728	N/A
2020	\$2,238,102	54.8%	\$1,145,537	42.9%
2021	\$58,250	-97.4%	\$838,649	-26.8%
2022	(\$1,404,526)	-2511.2%	\$610,975	-27.1%
2023	\$584,171	-141.6%	\$580,975	-4.9%
2024	\$2,597,723	344.7%	\$885,477	52.4%
2025	\$2,935,466	13.0%	\$1,733,643	95.8%
2026	N/A	N/A	N/A	N/A
Average		-389.6%		22.0%

2026 Budget: \$1,567,774

Base Year Estimate: \$1,567,774

The model maintains a base estimate equal to the 2026 budget. This estimate is consistent with 2025 earnings.

Potential Revenue Risks and Restrictions

The amount of income generated by the Town’s investments is dependent on market changes. It can be volatile from year to year, as illustrated above, and in an economic downturn the Town risks a significant reduction in revenue.

Annual Change Assumptions: 2.0% for LAIF and 2.8% remaining cash investments

There are two offsetting factors influencing the projected interest earnings over the next ten years. First, the assumption for interest earned on investment balance is split between a steady LAIF balance of \$15m returning 2.0% on average over the forecast period and approximately \$45m of investment account balance that is expected to decline over the forecast period as the projected structural deficit will reduce fund balance and cash on hand for the Town. This declining balance, however, is expected to return interest earnings of approximately 2.8% annually. The interest rate assumptions are lower than the most recent rate of return the Town has experienced of 3.4%. This is influenced by recent Federal Reserve actions to reduce rates.

Actual interest earnings collected by the Town declines over the ten-year period from an estimated \$1.5m in 2027 to \$700,000 in 2036. This is driven by a lower investment balance of \$65 million today to approximately \$30 million in 2036. This decline assumes the Town will rely more on fund balance to meet balanced budget requirements, decreasing the amount of cash available to invest.

Other Revenue

The final external revenue category in the model encompasses all revenue not falling into another category, such as donations or property sales. The following table illustrates the category’s historical revenue, as well as the average annual change.

Table 25: Other Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$6,575,936	N/A
2020	\$2,731,171	-58.5%
2021	\$3,550,564	30.0%
2022	\$2,410,531	-32.1%
2023	\$2,755,697	14.3%
2024	\$3,156,921	14.6%
2025	\$2,517,861	-20.2%
Average		-8.7%

2026 Budget: \$2,188,465

Base Year Estimate: \$2,800,000

The Town’s budgeted revenues in this category for FY2026 are lower than FY2025, reflecting the decrease that took place between FY2024 and FY2025. This is appropriate for the FY2026 budget, but may be artificially low if used as the basis for future projections. Instead, the project team used the average revenue for the past three years, approximately \$2.8 million, as a basis for future projections.

Potential Revenue Risks and Restrictions

There are a variety of revenue sources in this category, many of which vary significantly from year to year. This impacts the Town’s ability to reliably predict future revenues.

Annual Change Assumptions: 0.0%

The base year assumption is intended to normalize revenue projections in this category based on past years’ average, but volatility in annual revenue makes it difficult to predict future revenues. For the purposes of the model, revenue is assumed to be flat in the base scenario.

Transfers In

Some General Fund revenue is transfers from other Town funds. The following table illustrates the category’s historical revenue, as well as the average annual change.

Table 26: Transfers In Revenue History

Year	Actual Revenue	Annual Percent Change
2019	\$1,578,911	N/A
2020	\$599,669	-62.0%
2021	\$652,056	8.7%
2022	\$633,352	-2.9%
2023	\$538,536	-15.0%
2024	\$564,910	4.9%
2025	\$812,411	43.8%
Average		-3.7%

The two largest sources of transfers are the General Fund Appropriation Reserve (GFAR) Fund 411 and the Gas Tax Fund; all other transfer amounts have historically been \$10,000 or less. The GFAR Fund is used to finance capital projects, and the transfers into the General Fund are intended to represent excess unspent funds in a given year. The Gas Tax Fund transfers go towards operating costs that can legally be paid out of Gas Tax revenue, such as the cost of mowing laws and trimming trees in Town Right-Of-Way. Historically, the Town has transferred a standard amount year for this purpose.

2026 Budget: \$562,411

Base Year Estimate: \$321,280

The Town has historically transferred a set amount from most funds each year, as shown in the table below, and these amounts are also assumed in the base budget. The exception is the General Fund Appropriation Reserve (GFAR) Fund 411, where amounts have varied. The GFAR Fund is used to finance capital projects, and over the past seven years GFAR transfers into the General Fund have averaged 6.9% of expenditures. We applied this 6.9% to the average annual assumed GFAR capital expenditures over the model period and based on these assumptions an average of approximately \$200,970 is expected to be transferred into the General Fund. This is assumed as the base revenue for FY2026.

Table 27: Assumed Transfers In by Fund, FY2026

Fund	FY2026 Transfers In
General Fund Appropriated Reserve Fund 411	\$200,970
Gas Tax Fund	\$106,000
Traffic Mitigation Fund	\$10,000

Fund	FY2026 Transfers In
Kennedy Assessment District Fund	\$1,510
Vasona Assessment District Fund	\$1,430
Santa Rosa Assessment District Fund	\$660
Blackwell Assessment District Fund	\$460
Hillbrook Assessment District Fund	\$250
Total	\$321,280

Annual Change Assumptions: 0.0%

The Town has had a historical practice of transferring in set amounts from various other funds, as discussed above, with the transfers generally remaining flat from year to year. The exception is GFAR transfers, but the base year assumption is the normalized annual projected transfer for the entire model period. For this reason, all transfers are assumed to remain flat.

Personnel Expenditures

The following sections detail personnel-related expenditures including salaries and overtime (e.g. wages) and benefits, including healthcare and retirement.

Personnel Costs- Salary

Personnel-related costs are the single largest driver of operating expenses for the Town. Wages, including salaries and overtime account for nearly 40% of total budgeted expenditures in 2026. Wages and benefit costs are nearly 70% of total cost. To determine the underlying assumption for personnel – salaries cost, the project team reviewed actual expenditure history since 2019 alongside the change in authorized staffing levels over that same period. The following table illustrates these trends.

Table 28: Personnel - Salary Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change	Authorized Staffing	Annual Percent Change	Cost per FTE	Annual Percent Change
2019	\$17,223,545	N/A	148.99	N/A	\$115,602	N/A
2020	\$18,175,614	5.5%	149.63	0.4%	\$121,470	5.1%
2021	\$18,987,346	4.5%	150.00	0.2%	\$126,582	4.2%
2022	\$18,306,124	-3.6%	150.24	0.2%	\$121,846	-3.7%
2023	\$20,011,354	9.3%	153.26	2.0%	\$130,571	7.2%
2024	\$21,186,554	5.9%	152.51	-0.5%	\$138,919	6.4%
2025	\$21,813,266	3.0%	152.50	0.0%	\$143,038	3.0%
Average		4.1%		0.4%		3.7%

Personnel Costs- Vacancy Savings

Budgeting for vacancy savings is a tool to improve realistic forecasting, especially in an environment of financial constraint. The underlying assumption should be rooted in actual experience for the Town and consider, where appropriate, department specific turnover rates that may have an outsized impact on overall savings, such as Police. The challenge is determining a vacancy factor that does not prevent hiring or influence policy/service level decisions. In other words, vacancy savings occur naturally each year based on normal staffing churn (e.g. time to hire, retirements, voluntary resignations etc.). Where the savings are generated can vary from year to year. Therefore, the estimate should rely on Town-wide experience without impacting individual department hiring practices to meet service level expectations.

Raftelis reviewed the recent budget-to-actual variance for personnel cost (excluding OPEB) to get a sense of vacancy savings generated annually compared to the Town’s current vacancy savings estimate of \$2.2 million or 4.6%.

Table 29: Budgeted vs. Actual Personnel Costs, FY2019-2025¹²

Year	Budgeted Personnel Costs	Actual Personnel Costs	Variance (\$)	Variance (%)
2019	\$27,182,218	\$26,791,635	\$390,583	1.4%
2020	\$30,910,360	\$28,563,165	\$2,347,195	7.6%
2021	\$31,578,999	\$29,954,224	\$1,624,775	5.1%
2022	\$32,269,661	\$29,651,637	\$2,618,024	8.1%
2023	\$35,472,824	\$32,306,067	\$3,166,757	8.9%
2024	\$36,166,293	\$34,234,940	\$1,931,353	5.3%
2025	\$38,518,446	\$36,315,240	\$2,203,206	5.7%
Average			\$2,040,270	6.0%

The vacancy savings percentage estimate falls below historical experience; however, the amount is close to the historical average. The Town should exercise caution with this budgetary estimate going forward. Attrition data needs to be evaluated annually to see if staffing trends have changed and if so, adjust this estimate to remain conservative instead of in-line with actual experience. Reductions to the vacancy savings will *increase* the annual budget gap. In addition, part of the historical experience considers overtime and pension costs. While these costs are certainly related to personnel, they are not always linear in terms of impact. Overtime may spike due to service response needs and pension cost also factors in amortization of long-term liability based on market performance in addition to covered payroll.

Bargaining Units

Town staff fall within five different labor groups, with three groups governed by collective bargaining agreements or memorandums of understanding (MOU’s). The MOU’s indicate contractual salary increases over a set period of time. For purposes of the baseline forecast, Raftelis considered each of these labor groups individually and the associated historical trend for personnel costs. The current MOUs expire at the end of FY 2027. Details regarding salary assumptions for each of these labor groups are provided below.

2026 Personnel – Salary Budget without Vacancy Savings: \$25,381,471

2026 Personnel – Salary Budget with Vacancy Savings: \$23,182,932

Base Year Estimate: \$22,794,863

For the long-term forecast, Raftelis chose to rely on historical trend and not include a vacancy savings factor. The base estimate for 2026 considers the most recent actual personnel cost of \$21.3 million and assumed base increase of 4.5%.

¹² Includes salary, overtime, other benefits, and CalPERs pension.

Annual Change Assumptions: 3.9%, weighted average

The model assumes that the number of positions remains unchanged over the course of the model period.¹³ Costs are projected forward based on the average annual salary increase by bargaining unit¹⁴, the total number of positions per bargaining unit, and the average annual salary per position. All data was provided by Town staff. Based on these assumptions, salary costs are assumed to increase by an average of 3.9% per year over the course of the model period.

The following table summarizes data used to create these assumptions.

Table 30: Salary Assumptions by Bargaining Group

Group	Average Salary Range Increase, Most Recent Three Years of Data	Total Authorized Positions, FY2026	Average Hourly Salary, FY2026
American Federation of State, County and Municipal Employees (AFSCME)	4.0%	14	\$47.93
Los Gatos Police Officers' Association	5.2%	39	\$81.72
Los Gatos Town Employees' Association	3.0%	56	\$58.40
Confidential	3.7%	13	\$57.25
Management	3.7%	32	\$96.56

Personnel Costs- Overtime

As mentioned previously, overtime costs can vary and are typically tied to overall trends in staffing. Often, overtime costs run higher when staffing levels are lower (higher vacancy rates). The Town’s budget for overtime has consistently lagged actual expenditures as illustrated in the following table.

Table 31: Overtime Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change	Adopted Budget
2019	\$707,046	N/A	\$387,204
2020	\$708,955	0.3%	\$477,890
2021	\$882,421	24.5%	\$424,560
2022	\$1,134,177	28.5%	\$472,270
2023	\$1,373,672	21.1%	\$604,678
2024	\$1,342,518	-2.3%	\$578,856
2025	\$1,333,709	-0.7%	\$599,171
Average		11.9%	

2026 Budget: \$657,310

Base Year Estimate: \$1,371,566

Overtime costs grew significantly between 2021 and 2023. This is likely correlated with lower staffing levels after the pandemic. As staffing levels have stabilized, overtime costs have also remained more consistent at approximately \$1.3 million annually. Maintaining a historical trend-based methodology, the 2026 estimate for the General Fund forecast assumes an amount in line with recent experience.

¹³ The Excel model does include mechanisms to allow the user to project the cost of additional positions.

¹⁴ Actual increases are used where negotiated agreements are available.

Annual Change Assumptions: 1.0%

The project team analyzed trends in average overtime per authorized position in recent years to project future costs. Overtime per position has varied significantly over time, as illustrated below, but has decreased in recent years. The baseline model assumes no new positions are added; therefore, future overtime costs will be a factor of vacancy rates, changes in service level expectations (without corresponding funding), and the underlying base wage for overtime eligible positions. Because overall salary growth is projected to increase, a corresponding increase is expected for overtime. The projected growth is smaller than anticipated salary growth, assuming staffing levels remain consistent with recent experience and the actual amount of overtime hours incurred (overtime per person) continues to decline slightly.

Table 32: Historical Overtime Costs by Authorized Position

Year	Total Positions	Overtime Per Position	Annual Change
2019	148.99	\$4,746	N/A
2020	149.64	\$4,738	0%
2021	150.81	\$5,851	24%
2022	150.24	\$7,549	29%
2023	153.25	\$8,964	19%
2024	152.50	\$8,803	-2%
2025	152.50	\$8,746	-1%
Average			11.4%

Personnel Costs- CalPERS

Current and former Town employees participate in the state’s public pension fund – CalPERS. Plan participation varies depending on when employees entered the system and the nature of their employment (general or public safety). The Town relies on actuarial consultants to provide estimates for annual contributions. These estimates include multiple factors such as current Town payroll for covered employees (those eligible to participate), accrued pension liability resulting from pension assets underperforming relative to plan assumptions, and the expected benefit payment for each vested employee based on demographics and plan features.

Similar to other personnel cost drivers, the project team first assessed actual pension cost paid annually to understand underlying growth trends. This data along with actuarial estimates provided by Foster and Foster® informed assumptions for expected future pension costs. The following table illustrates actual CalPERS costs, as well as the average annual change.

Table 33: CalPERS Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$5,282,681	N/A
2020	\$6,059,646	14.7%
2021	\$6,374,119	5.2%
2022	\$6,531,958	2.5%
2023	\$7,091,215	8.6%
2024	\$7,431,198	4.8%
2025	\$8,220,124	10.6%
Average		7.7%

2026 Budget: \$9,907,119

Base Year Estimate: \$9,114,430

The table below details how the 2026 base amount was determined relying on the actuarial estimates from the March 2025 Foster and Foster Report. Included in that report were estimates for covered payroll that support the model’s 2026 base estimate for contributions.

Table 34: CalPERS Covered Payroll and Contribution by Group

Employee Group ¹⁵	Employee Count	2025/26 Payroll	2025/26 Contribution ¹⁶	FY2026 Base Estimate
Miscellaneous	114	\$15,215,000	30.0%	\$4,564,500
Safety	36	\$6,842,000	66.5%	\$4,549,930
Total	150	\$22,057,000	N/A	\$9,114,430

Annual Change Assumptions: 4.9% on average (varies by year)

The model projects annual covered payroll for Safety and miscellaneous employees based on the assumptions detailed in the salary section above. The Foster and Foster report projects the percentage of payroll contributions needed for both safety and miscellaneous employees over the next 10 years to cover normal cost and the unfunded accrued liability (UAL) payment. This percentage (50th percentile) is used to determine pension cost for the Town over the next ten years.

It is important to note the baseline model does not consider changes to underlying pension assumptions, such as the discount rate used for market rate of return on assets. This type of change would be modeled as a scenario and may have a significant impact on the required contribution from the Town each year. To hedge against growing unfunded liability the Town has also established a pension trust, for which annual contributions are factored into the baseline model projection for the General Fund. Additional details can be found in that expenditure category section.

¹⁵ Includes proportionate share of classic members utilizing final average contribution (FAC) of one year or three years as well as members who joined after the 2013 Public Employees’ Retirement Reform Act (PEPRA).

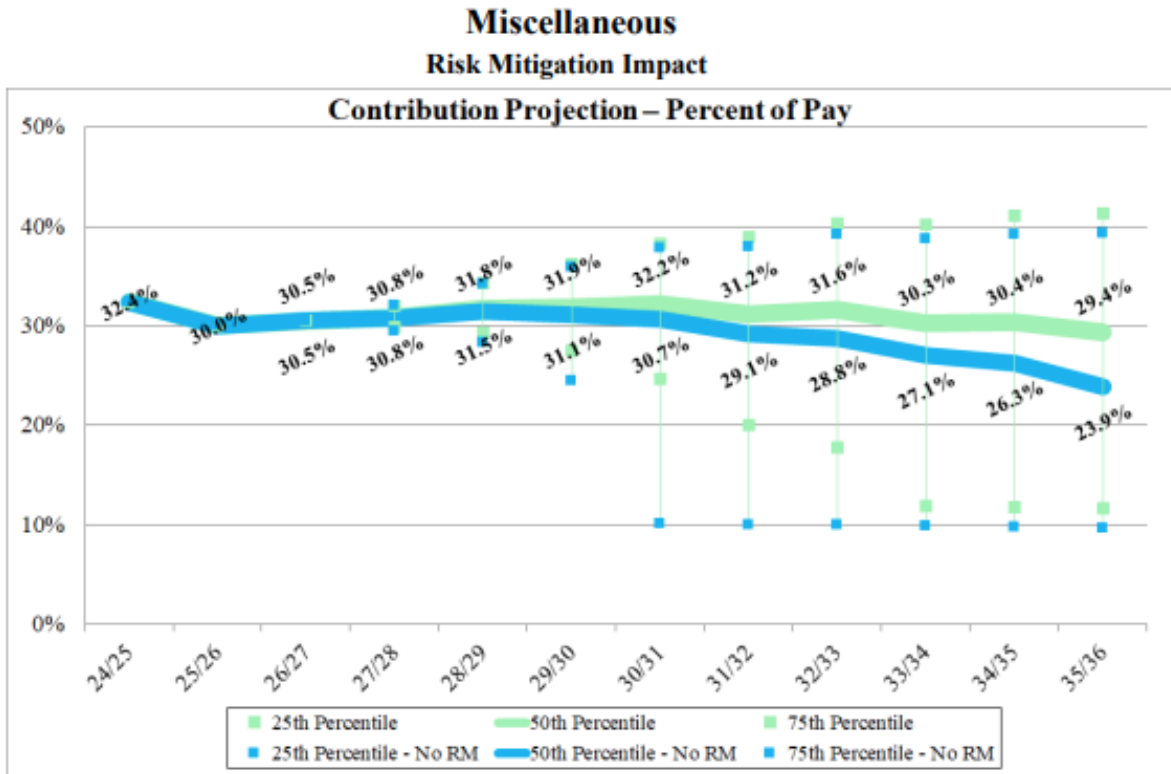


Figure 1: Foster and Foster Miscellaneous Employer Pension Contributions FY2026-2036

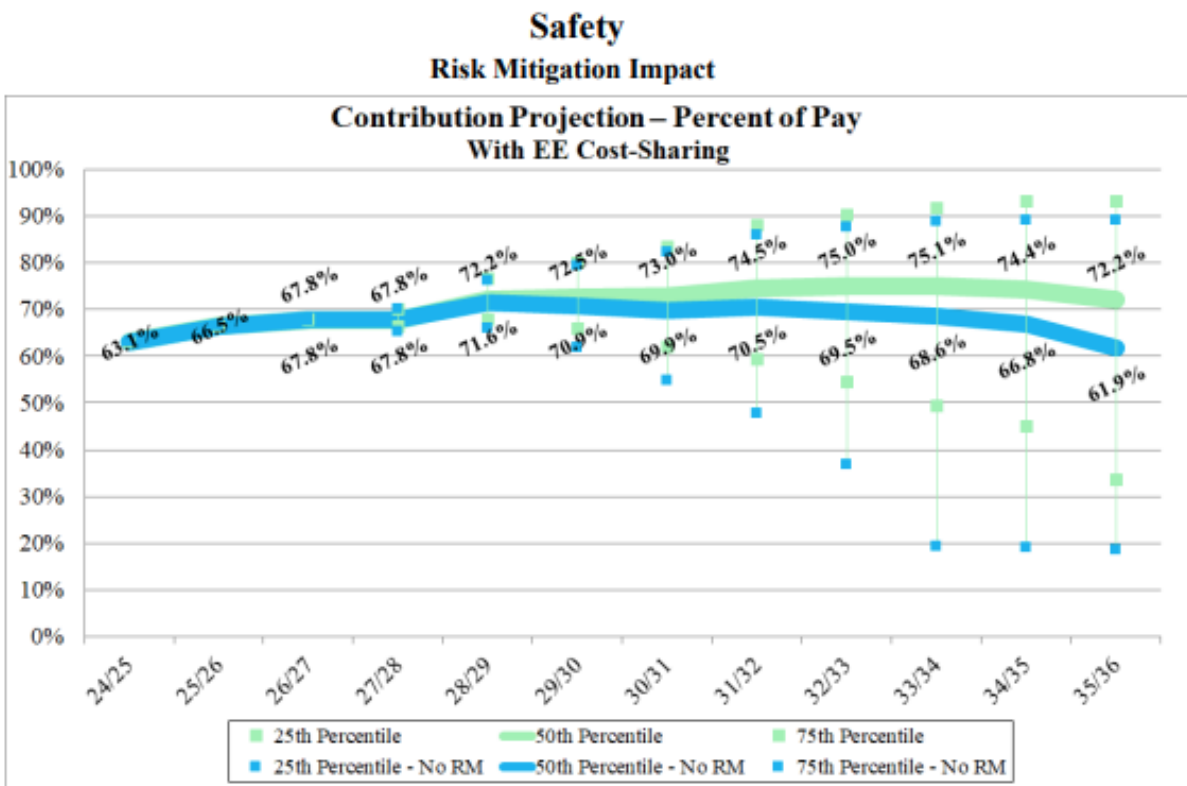


Figure 2: Foster and Foster Safety Employer Pension Contributions FY2026-2036

Personnel Costs- Other Benefits

The other benefits category encompasses costs primarily related to health insurance (including dental and vision) as well as other benefits such as disability and group life insurance. The Town is fully insured, paying a fixed premium to an insurance carrier to provide medical coverage for employees. The following table illustrates the category’s historical actual costs, as well as the average annual change.

Table 35: Other Benefits Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$3,578,363	N/A
2020	\$3,618,950	1.1%
2021	\$3,710,338	2.5%
2022	\$3,679,378	-0.8%
2023	\$3,829,826	4.1%
2024	\$4,274,670	11.6%
2025	\$4,948,141	15.8%
Average		5.7%

2026 Budget: \$6,265,770

Base Year Estimate: \$5,548,868

Benefit costs were dormant through the pandemic years and then rebounded to above average increases, particularly within the past two years. The lower actual costs experienced in 2020 – 2022 are not anticipated in future years. Rather, it is expected that healthcare costs will settle into historic growth patterns of 6-8% employer cost increases annually. For this reason, the 2026 base estimate in the forecast is \$5.5 million, reflecting approximately a 12% increase from the 2025. This is base assumes a “catch up” from the deflated costs experienced previously and is below the Town’s 2026 budget. The growth in costs from this base estimate are not expected to increase as much as explained below.

Annual Change Assumptions: 6.6%

The project team looked at trends in healthcare costs from two industry experts, PricewaterhouseCoopers (PwC) and the National Association of Insurance Commissioners (NAIC), as well as the Town’s own experience with costs the past several years to develop the annual benefit cost projection of a 6.6% annual increase.

Table 36: Industry Healthcare Cost Trends

Year	PwC Annual Change in Group Plan Healthcare Costs	NAIC Annual Change in Insurance Premiums
2021	7.0%	Not available
2022	5.5%	5.5%
2023	8.0%	5.2%
2024	8.5%	4.9%
2025	8.5%	7.1%
Average	7.5%	5.7%

Personnel Costs- Other Post-Employment Benefits (OPEB)

The Town’s share of retiree medical expenses is categorized as OPEB. The Town is required to provide medical insurance for retirees who are not yet Medicare eligible. The underlying cost for this benefit is related to assumptions for healthcare cost increases (e.g. Other Benefits); however, the demographic composition is a higher age group that typically utilize medical benefits at a higher rate than the overall employee population. The historical trend data supports this, with Town-wide benefit costs growing at 5.7% on average the past seven years, while retiree’s share of healthcare costs grew at 8.2%. The following table illustrates the category’s historical actual costs, as well as the average annual change.

Table 37: OPEB Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$1,181,579	N/A
2020	\$1,203,101	1.8%
2021	\$1,286,285	6.9%
2022	\$1,391,296	8.2%
2023	\$1,527,074	9.8%
2024	\$1,631,602	6.8%
2025	\$1,883,528	15.4%
Average		8.2%

2026 Budget: \$2,125,000

Base Year Estimate: \$2,125,000

The Town’s 2026 budget aligns with growth in actual costs of approximately 8% from the most recent fiscal year.

Annual Change Assumptions: 7.7%

Similar to the underlying industry data support total benefit costs for the Town, the anticipated growth for this expenditure category uses a higher overall percentage to mirror the differences in demographics and the higher end of anticipated national healthcare cost increases anticipated by industry experts.

Non-Personnel Expenditures

The Town has multiple ongoing operating expenditures required to support service delivery that do not involve personnel. Actual expenditure trend history and underlying cost assumptions for the General Fund baseline model are detailed by category below. Unless otherwise noted, historical averages shown by department or a more granular expense type reflect the seven-year average consistent with the historical trend data provided.

Grants and Awards

The Town has historically set aside funds for grant and awards programs in the community. The amount has varied depending on the Town’s financial position and community/economic factors. For example grants increased significantly after pandemic, likely related to one-time funding from state and federal sources to support various community programs. The amount of grants awarded is an annual discretionary policy decision. As such, for the baseline forecast model, we relied on Town staff guidance of \$155,000 as the ongoing base amount of grants awarded annually with no anticipated increases over the ten year period.

Materials and Supplies

Police, Parks and Public Works, and Library comprise 88% of total materials and supplies expenditures for the Town. The following table illustrates the category’s historical cost, as well as the average annual change. Amount have been adjusted to remove one-time anomalies.

Table 38: Materials and Supplies Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$506,425	N/A
2020	\$954,191	88.4%
2021	\$986,060	3.3%
2022	\$976,524	-1.0%
2023	\$1,004,047	2.8%
2024	\$1,336,078	33.1%
2025	\$1,205,674	-9.8%
Average		19.5%

2026 Budget: \$1,341,030

Base Year Estimate: \$1,101,676

In FY2024 the Town increased the base budget to \$1.3 million, which is slightly higher than recent trends for the past three years. The model assumes an initial base estimate of \$1.1 million, which the five-year historical expenditure average since 2021.

Annual Change Assumptions: 7.4% (weighted average)

The types of materials and supplies purchased vary from department to department, so the project team used expenditure history by department to estimate future trends. As stated previously, three departments drive the majority of underlying cost for this category. The remaining departments make up a smaller share of costs with actual expenses varying from year to year. For those departments, expenditures are assumed to remain flat throughout the model period (e.g. existing allocation of base budget is sufficient to cover these departments collectively).

The following table illustrates historical and assumed annual expenditure change by department. A three-year (post pandemic) average growth rate was used to inform the future costs.

Table 39: Materials and Supplies Expenditure Assumptions by Department

Department	Average Portion of Expenditures	Three Year Average Annual Change	Assumed Annual Change
Police	41.9%	12.8%	10.0%
Parks and Public Works	29.2%	10.1%	7.0%
Library	16.9%	3.0%	2.0%
All Other	12.0%	-15.4%	0.0%

Utilities

The Town pays a variety of utilities including water, electric, and telecommunications. The following table illustrates actual utilities costs, as well as the average annual change.

Table 40: Utilities Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$451,146	N/A
2020	\$540,966	19.9%
2021	\$572,195	5.8%
2022	\$560,096	-2.1%
2023	\$636,764	13.7%
2024	\$723,753	13.7%
2025	\$829,296	14.6%
Average		10.9%

2026 Budget: \$721,546

Base Year Estimate: \$900,000

Actual utilities costs since the pandemic have increased by 14%, exceeding budget estimates in FY2023-25. For the model, an initial 2026 base estimate of \$900,000 is used. This is based on the recent three year growth trajectory.

Annual Change Assumptions: 10.6% (weighted average)

Costs were estimated by utility type, based on past history. Utilities with a minimal impact on overall cost and volatile changes year-over-year are assumed to be flat. The following table illustrates assumed annual expenditure change by utility.

Table 41: Utility Expenditure Assumptions by Type

Utility	Average Portion of Expenditures	Average Annual Change	Assumed Percent of Cost ¹⁷	Assumed Annual Change
Electric	6.4%	11.4%	7.0%	12.0%
Water	50.6%	11.9%	51.6%	12.0%
St Lite / Signals Energy	31.1%	9.4%	30.9%	9.0%
911 Communications Line	5.2%	14.8%	5.3%	10.0%
Telephone	3.3%	11.7%	3.3%	8.0%
Mobile/Cell Phones	2.2%	3.2%	1.0%	1.0%
Communications Data Lines	0.3%	-39.2%	0.2%	0.0%
Cable	0.8%	2.9%	0.7%	0.0%

Purchased Services

Purchased services include contracts and third-party technical/advisory support services for the Town. Amounts can vary significantly by department, however, Police, Parks and Public Works, and Community Development account for almost two-thirds of costs, with the remaining share coming from administrative functions (including non-departmental). The table below provides historical expenditure trends.

Table 42: Purchased Services Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$3,518,231	N/A
2020	\$3,408,461	-3.1%

¹⁷ based on most recent 2025 portion of actual cost.

Year	Actual Expenditures	Annual Percent Change
2021	\$2,899,476	-14.9%
2022	\$3,308,630	14.1%
2023	\$2,795,440	-15.5%
2024	\$3,453,697	23.5%
2025	\$3,063,557	-11.3%
Average		-1.2%

2026 Budget: \$3,752,045

Base Year Estimate: \$3,206,785

Actual purchased services costs have generally come in lower than budget. The model assumes a 2026 base estimate of \$3.2 million, which is consistent with the historical average for expenditures over the past seven years.

Annual Change Assumptions: 4.6% (weighted average)

Costs were estimated by department, based on past history. Departments with volatile past change that are relatively small relative to total cost incurred are assumed to be flat. The following table illustrates assumed annual expenditure change by Department.

Table 43: Purchased Services Expenditure Assumptions by Department

Department	Average Portion of Expenditures	Average Annual Change	Assumed Percent of Cost ¹⁸	Assumed Annual Change
Council	0.1%	55.1%	0.2%	0.0%
Attorney	5.1%	152.5%	16.2%	10.0%
Administrative Services	8.0%	14.8%	8.1%	5.0%
Community Development	17.1%	1.6%	17.0%	2.0%
Police	20.5%	18.8%	17.5%	10.0%
Parks and Public Works	19.7%	3.3%	19.4%	2.0%
Library	2.9%	7.8%	4.2%	2.0%
Non-Departmental	26.7%	-12.5%	17.5%	0.0%

Other Operating Expenditures

The final non-personnel operating expenditure category includes all operating expenditures that do not fall into another category. Examples include license fees, subscriptions, and reimbursements for employee travel. The following table illustrates actual costs, as well as the average annual change.

¹⁸ based on most recent 2025 portion of actual cost.

Table 44: Other Operating Costs Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$2,732,835	N/A
2020	\$2,363,715	-13.5%
2021	\$2,656,065	12.4%
2022	\$2,826,600	6.4%
2023	\$2,898,164	2.5%
2024	\$3,177,868	9.7%
2025	\$3,907,189	23.0%
Average		6.7%

2026 Budget: \$3,367,687

Base Year Estimate: \$4,170,370

Actual expenditures increased significantly in 2024 and 2025. The base year estimate assumes this pattern continues with a 6.7% increase from 2025 actual.

Annual Change Assumptions: 6.7%

Based on the average annual change.

Internal Services Charges

The Town relies on internal service funds (ISF) for Town-wide insurance including general liability and workers compensation, as well as facility, Fleet/equipment replacement, and IT services. Each of these funds incur operating costs, including ongoing maintenance, repair, and small capital asset replacement. In some cases they may also receive external revenue sources that support operating costs. The baseline model first calculates estimated operating costs including ongoing maintenance, repair, and replacement for each ISF, then applies any outside revenue sources, before determining the net “charge” required to be allocated to departments to fully recover operational cost. As a result, the General Fund model internal service charge category reflects this aggregate net “charge” to all General Fund departments. The following sections detail assumptions for each internal service fund.

Liability Self-Insurance Fund

The underlying cost of this fund reflects general liability insurance premiums, which are influenced by the Town’s claims experience and insurance industry cost trends. The following table illustrates historical operating expenditures for the fund, as well as the average annual change. The fund does not consistently receive external revenue to support operating costs.

Table 45: Liability Self-Insurance Fund Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$338,617	N/A
2020	\$400,823	18.4%
2021	\$646,495	61.3%
2022	\$583,924	-9.7%
2023	\$988,486	69.3%
2024	\$1,131,184	14.4%
2025	\$1,320,458	16.7%
Average		28.4%

2026 Charges for Service Budget: \$1,825,348

Base Year Estimate: \$1,622,241

Actual costs spiked beginning in 2023 through 2025. The Town recently moved to a new JPA that is expected to yield some cost savings in future years. The 2026 base estimate reflects historical cost with anticipated growth of 22% from 2025 actual.

Annual Change Assumptions: 7.0%, on average

With the recent shift to a new JPA, the annual growth in insurance costs are expected to slow from recent historical averages. Costs are still projected to increase each year at a rate greater than inflation given insurance industry trends. This assumption will need to be closely monitored as the Town receives future premium and claims data under the new JPA.

Workers' Compensation Self-Insurance Fund

The underlying cost of this fund reflects workers compensation claims activity. The following table illustrates historical operating expenditures for the fund, as well as the average annual change.

Table 46: Workers' Compensation Self-Insurance Fund Actual Revenue and Expenditure History

Year	Actual Operating Expenditures	Annual Percent Change	Actual External Revenues	Annual Percent Change
2019	\$1,270,628	N/A	412,720	N/A
2020	\$1,525,589	20.1%	526,552	27.6%
2021	\$1,381,049	-9.5%	327,768	-37.8%
2022	\$1,533,045	11.0%	258,474	-21.1%
2023	\$1,913,144	24.8%	163,755	-36.6%
2024	\$1,332,697	-30.3%	392,310	139.6%
2025	\$1,131,566	-15.1%	330,788	-15.7%
Average		0.2%		9.3%

2026 Charges for Service Budget: \$1,901,696

Base Year Estimate: \$1,650,000

Recent workers compensation costs have declined from the 2023 peak of \$1.9 million. With the difficulty predicting claims activity, some contingency or fund balance within the ISF is desired as a way to smooth incremental cost increases over time. The 2026 base estimate includes the historical average cost of \$1.4 million with a \$250,000 contingency.

Annual Change Assumptions: 2.3%, on average

The model projects Workers' Compensation Self-Insurance Fund costs using a general inflationary factor of 2%. Year-to-year costs have varied significantly. With some contingency built into the base estimate, ongoing growth assumptions are smoothed to consider inflation given the average historical experience has been relatively flat.

Facilities Maintenance Internal Service Fund

The facilities maintenance funds provides funding for the upkeep and maintenance of Town facilities. The following table illustrates actual operating expenditures, as well as the average annual change and external revenue sources (outside of charges to General Fund departments) that support facilities maintenance operating needs.

Table 47: Facilities Maintenance Fund Budgeted and Actual Contribution History

Year	Actual Operating Expenditures	Annual Percent Change	Actual External Revenues	Annual Percent Change
2019	\$968,550	N/A	\$904,548	N/A
2020	\$1,002,775	3.5%	\$233,302	-74.2%
2021	\$1,063,763	6.1%	\$333,649	43.0%
2022	\$1,217,971	14.5%	\$1,115,005	234.2%
2023	\$1,298,219	6.6%	\$394,952	-64.6%
2024	\$1,330,691	2.5%	\$490,512	24.2%
2025	\$1,418,481	6.6%	\$245,818	-49.9%
Average		6.6%		18.8%

2026 Charges for Service Budget: \$1,175,983 (net of external revenue)

Base Year Estimate: \$1,175,983

The Town has consistently charged the General Fund departments for 100% of underlying operating expenditures. The 2026 base maintains the original adopted budget of \$1.2 million, which is reflective of actual operating expenditures less external revenue sources.

Annual Change Assumptions: 7.2%, on average

The model projects Facilities Maintenance Fund costs by category, based on past history and consistent with underlying assumptions for General Fund costs for the same non-personnel expenditure categories. The expected charge is offset by approximately \$340,000 in revenue, which does not include a growth factor over the ten years. The following table summarizes expenditure assumptions by category.

Table 48: Facilities Maintenance Fund Model Assumptions

Expenditure Category	FY2025 Actual Expenditures	Annual Change Assumed for Model
Materials and Supplies	\$404,096	3.5%
Utilities	\$817,793	8.0%
Purchased Services	\$158,481	2.0%
Other Operating Expenditures	\$58,836	6.1%

Information Technology (IT) Internal Service Fund

The IT ISF supports Town-wide application support and maintenance contracts, along with equipment (hardware) replacement cycles. The following table illustrates actual operating expenditures, as well as the average annual change.

Table 49: IT Internal Service Fund Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$566,952	N/A
2020	\$796,071	40.4%
2021	\$668,473	-16.0%
2022	\$877,789	31.3%
2023	\$538,282	-38.7%
2024	\$731,789	35.9%
2025	\$887,063	21.2%
Average		12.4%

2026 Charges for Service Budget: \$954,554

Base Year Estimate: \$1,067,101

Base year estimates for the IT ISF charges for services do not include any assumption for external revenue sources. In addition, the 2026 base estimate is reflective of the anticipated maintenance and replacement schedule provided by Town staff, not historical spending. This schedule reflects the true cost to maintain the IT infrastructure the Town has in place to support current service levels.

Annual Change Assumptions: 3.0%, on average

The Town provided an inventory of existing technology assets and planned replacement schedules, and the project team used this data to project annual technology replacement needs over the 10-year model period. The model projects that actual technology costs will be between approximately \$1.1 and \$1.5 million per year over the next 10 years. These figures are smoothed out over the model period to allow for a more predictable annual contribution. Contribution amounts are assumed to increase by 3% each year based on inflation and higher replacement costs over time.

The following table illustrates estimated actual technology needs by year. It is based on existing technology and does not assume any expansion of technology use.

Table 50: Estimated Technology Replacement Needs per Year, FY2026-2036

Year	Town Estimate of Maintenance and Replacement Needs	Smoothed Estimate for Forecast ¹⁹
2026	\$1,251,845	\$1,042,067
2027	\$1,420,894	\$1,101,297
2028	\$1,105,082	\$1,134,336
2029	\$1,157,701	\$1,168,366
2030	\$1,206,837	\$1,203,417
2031	\$1,138,311	\$1,239,520
2032	\$1,508,759	\$1,276,705
2033	\$1,214,200	\$1,315,007
2034	\$1,190,731	\$1,354,457
2035	\$1,196,769	\$1,395,091
2036	\$1,276,077	\$1,436,943
Average	\$1,242,473	N/A

Equipment Replacement Internal Service Fund

The Equipment Replacement ISF supports maintenance and replacement of vehicles and other large equipment used by various Town departments. The following table illustrates historical operating expenditures, as well as the average annual change. Since the fund supports vehicle and equipment replacement (capital costs), there is greater variation in funds expended annually. This may be due to market conditions delaying the purchasing and receipt of new vehicles, which was common immediately after the pandemic. The fund also relies more heavily on fund balance to support catch-up or timing of replacement.

¹⁹ Includes 3% annual inflationary increase

Table 51: Equipment Replacement Fund Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change	Actual Revenues	Annual Percent Change
2019	\$601,961	N/A	\$22,492	N/A
2020	\$540,036	-10.3%	\$36,987	64.4%
2021	\$248,302	-54.0%	\$59,852	61.8%
2022	\$157,761	-36.5%	\$48,484	-19.0%
2023	\$526,960	234.0%	\$78,916	62.8%
2024	\$187,323	-64.5%	\$33,418	-57.7%
2025	\$563,192	200.7%	\$43,409	29.9%
Average		44.9%		23.7%

2026 Charges for Service Budget: \$1,167,544

Base Year Estimate: \$1,026,554

Base year estimates for the Equipment Replacement ISF charges for services includes a small assumption of \$40,000 in external revenue to offset General Fund charges for services. This external revenue is typically generated by sale proceeds from auction on obsolete vehicles that have exceeded their useful life. In addition, the 2026 base estimate is reflective of the anticipated maintenance and replacement schedule provided by Town staff, not historical spending. This schedule reflects the ongoing cost required to replace the Town’s current vehicle and equipment asset inventory.

Annual Change Assumptions: 3.0%, on average

The Town provided an inventory of equipment and planned replacement schedules, and the project team used this to project annual vehicle and equipment replacement needs over the 10-year model period. The Town replacement schedule projects that actual equipment costs will be between approximately \$215,000 and \$2.4 million per year over the next 10 years. These figures are smoothed out over the model period to allow for a more predictable annual contribution. Contribution amounts are assumed to increase by 3% each year.

The following table illustrates estimated actual equipment needs by year. It is based on existing equipment and does not assume any expansion for increased service levels.

Table 52: Estimated Equipment Replacement Needs per Year, FY2026-2036

Year	Town Estimate of Maintenance and Replacement Needs	Smoothed Estimate for Forecast ²⁰
2026	\$584,890	\$1,000,000
2027	\$2,387,730	\$1,089,741
2028	\$2,014,115	\$1,122,433
2029	\$214,275	\$1,156,106
2030	\$1,029,654	\$1,190,789
2031	\$837,932	\$1,226,513
2032	\$532,015	\$1,263,308
2033	\$1,079,139	\$1,301,207
2034	\$1,414,414	\$1,340,244
2035	\$2,162,045	\$1,380,451
2036	\$1,403,991	\$1,421,864
Average	\$1,241,836	N/A

Debt Service

The following table illustrates historical debt service, as well as the average annual change and the average annual variance between budgeted and actual.

Table 53: Debt Service Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	\$1,909,073	N/A
2020	\$1,905,024	-0.2%
2021	\$1,960,505	2.9%
2022	\$2,055,884	4.9%
2023	\$2,049,747	-0.3%
2024	\$2,119,919	3.4%
2025	\$2,108,681	-0.5%
Average		1.7%

2026 Budget: \$2,057,884

Base Year Estimate: \$2,057,884

It is assumed that actual debt service expenditures will match the Town’s adopted debt service schedule, as provided by Town staff.

Annual Change Assumptions: Varies

Debt service payments are based on debt service schedules provided by the Town. No additional debt is assumed during the model period.

²⁰Includes 3% annual inflationary increase

Transfers Out

Pension Trust Transfers

The Town transfers General Fund balance to a pension trust each year as a policy directive to accumulate reserves and investment earnings that can be used to offset the anticipated growth in unfunded pension liability over time. Similar to Town grants, the amount funded to the Pension Trust is an annual discretionary policy decision. For the baseline forecast, the model assumes \$390,000 is transferred annually from the General Fund.

Capital Transfers Out

For purposes of a baseline model forecast, transfers from the General Fund to support capital investment should only consider tier one funding, which is the required maintenance, repair, and replacement cost for existing assets used to provide services. If the Town has historically underfunded asset maintenance needs, this would not be reflected in the underlying baseline assumption. Rather, a scenario-based analysis could be used that incorporates higher funding levels to address deferred maintenance needs in a way that positions the Town to achieve desired replacement cycles for future years. The same scenario-based assumption is true for new capital projects tied to potential development or projects desired by Town Council.

The table below shows the history of capital expenditure, non-transfer revenue, and General Fund revenue (transfers in).

Table 54: Capital Improvement Projects Sources and Uses History

Year	Actual Capital Expenditures	Non-Transfer Revenue Sources	General Fund Transfer
2019	\$9,521,126	\$6,162,615	\$2,335,220
2020	\$8,477,293	\$13,382,084	\$6,982,591
2021	\$6,398,953	\$5,622,634	\$3,401,479
2022	\$18,257,900	\$18,196,039	\$1,750,001
2023	\$10,617,693	\$18,098,143	\$3,006,978
2024	\$13,375,941	\$11,406,579	\$1,615,000
2025	\$16,525,663	\$14,029,724	\$1,110,000
Average	\$11,882,081	\$12,413,974	\$2,885,896

The General Fund baseline model only considers pay-go cash sourced from the General Fund operating budget needed to support tier one capital needs after considering any external sources of designated revenue used for capital purposes. The model does not assume any new debt is issued to support ongoing tier one capital needs.

Base Year Estimate: \$1,000,000

Ultimately, General Fund cash to support capital investment is a policy decision. Given the history of total capital expenditures and other capital revenue sources, the model assumes a conservative \$1 million is transferred annually only to support tier one project needs. Additional capital investment is required but will be modeled as scenarios within the asset liability management (ALM) study components of the project.

There are potential options to mitigate the impact of these capital needs on the General Fund. The Town’s capital funds have an estimated FY2026 beginning fund balance of \$17.3 million, per the Town’s FY2026 budget book, and the strategic use of fund balance could minimize the need for General Fund transfers. The Town also has the option of incurring additional debt to finance capital project. No new debt is assumed in projections, but the Excel model allows users to project the impact of additional bond financing.

Preliminary Outlook

Projected Revenues and Expenditures

The following figure summarizes the projected revenues and expenditures.

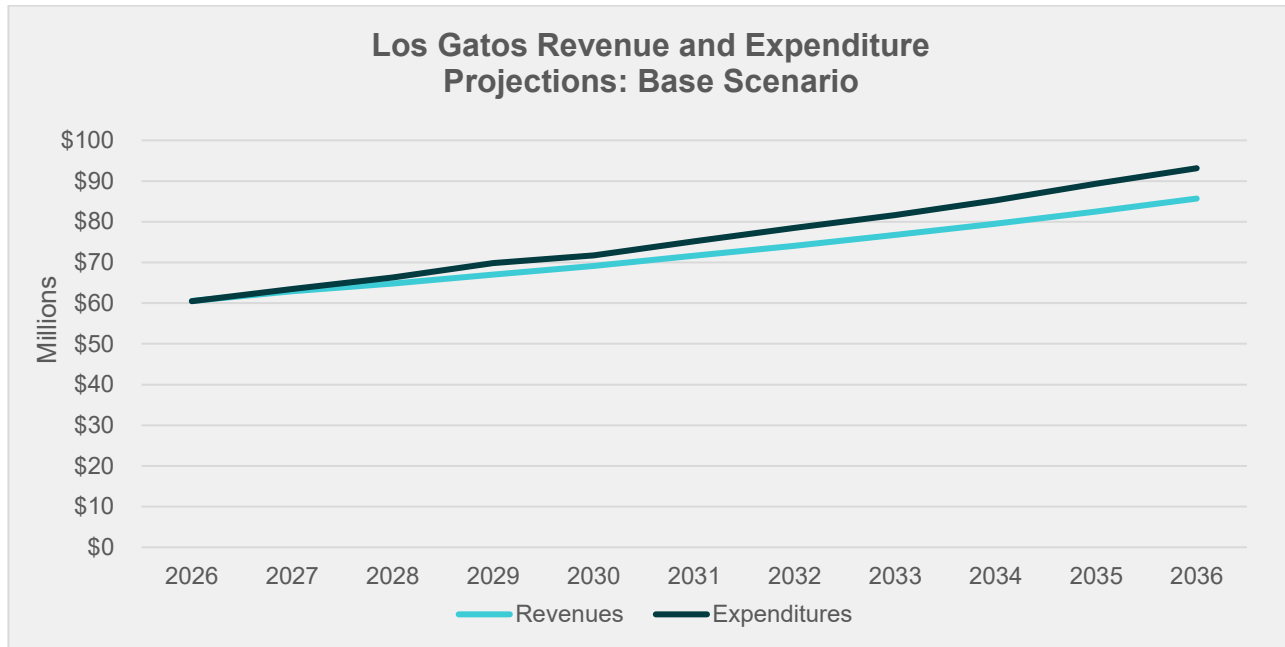


Figure 3: Estimated General Fund Revenues and Expenditures, in Millions

The model shows a gap between estimated revenues and expenditures that is projected to increase over time based on underlying assumptions for each of the model forecast categories detailed in this memo. It is again important to reiterate that these projections are based on a number of assumptions, and actual costs will vary significantly based on policy and operational decisions as well as external factors like the economy. The Excel model provided to staff as part of this project allows users to evaluate the potential impact of different scenarios.

The tables below show the estimated revenues, expenditures, and impact on fund balance in greater detail.

Table 55: Detailed General Fund Revenue Projections, FY2026-2036, in Millions

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Property Tax	\$21.5	\$23.1	\$24.4	\$25.7	\$27.2	\$28.7	\$30.4	\$32.1	\$33.9	\$35.8	\$37.8
VLF Backfill	\$5.6	\$5.9	\$6.2	\$6.5	\$6.9	\$7.2	\$7.6	\$8.0	\$8.5	\$8.9	\$9.4
Sales and Use Tax (non-Measure G)	\$7.8	\$7.9	\$8.1	\$8.3	\$8.4	\$8.6	\$8.8	\$9.0	\$9.1	\$9.3	\$9.5
Sales and Use Tax (Measure G)	\$1.3	\$1.4	\$1.4	\$1.4	\$1.4	\$1.5	\$1.5	\$1.5	\$1.6	\$1.6	\$1.6
Licenses & Permits	\$6.3	\$6.3	\$6.4	\$6.4	\$6.4	\$6.5	\$6.5	\$6.5	\$6.5	\$6.6	\$6.6
Town Services	\$5.7	\$5.9	\$6.1	\$6.3	\$6.5	\$6.7	\$6.9	\$7.1	\$7.3	\$7.5	\$7.7
Business License Tax	\$2.5	\$2.5	\$2.5	\$2.6	\$2.6	\$2.7	\$2.7	\$2.7	\$2.8	\$2.8	\$2.9
Transient Occupancy Tax	\$2.4	\$2.5	\$2.6	\$2.6	\$2.7	\$2.8	\$2.9	\$3.0	\$3.1	\$3.2	\$3.3
Intergovernmental	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3	\$1.3
Franchise Fees	\$1.0	\$1.1	\$1.1	\$1.1	\$1.1	\$1.1	\$1.2	\$1.2	\$1.2	\$1.2	\$1.2
Fines & Forfeitures	\$0.4	\$0.4	\$0.4	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5	\$0.5
Transfers In	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3	\$0.3
Interest	\$1.6	\$1.6	\$1.2	\$1.2	\$1.0	\$1.0	\$0.8	\$0.8	\$0.7	\$0.7	\$0.7
Other Sources	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8	\$2.8
Total Revenues	\$60.5	\$63.0	\$64.8	\$67.0	\$69.2	\$71.6	\$74.1	\$76.8	\$79.5	\$82.5	\$85.7
Percent Change	N/A	4.0%	2.9%	3.5%	3.2%	3.6%	3.4%	3.7%	3.6%	3.8%	3.8%

Table 56: Detailed General Fund Expenditure Projections, FY2026-2036, in Millions

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Operating Expenditures											
Salary	\$22.8	\$23.6	\$24.5	\$25.5	\$26.5	\$27.6	\$28.6	\$29.8	\$31.0	\$32.2	\$33.5
Overtime	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.5	\$1.5	\$1.5	\$1.5	\$1.5
CalPERS	\$9.1	\$9.7	\$10.1	\$11.1	\$11.7	\$12.3	\$12.8	\$13.5	\$13.9	\$14.5	\$14.7
OPEB	\$2.1	\$2.3	\$2.5	\$2.7	\$2.9	\$3.1	\$3.3	\$3.6	\$3.9	\$4.2	\$4.5
Other Benefits	\$5.5	\$5.9	\$6.3	\$6.7	\$7.2	\$7.6	\$8.1	\$8.7	\$9.2	\$9.9	\$10.5
Materials and Supplies	\$1.1	\$1.2	\$1.3	\$1.4	\$1.5	\$1.6	\$1.7	\$1.8	\$1.9	\$2.1	\$2.2
Internal Service Charges	\$6.5	\$7.0	\$7.2	\$7.5	\$7.7	\$7.9	\$8.2	\$8.4	\$8.7	\$8.9	\$9.2
Grants and Awards	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2	\$0.2
Utilities	\$0.9	\$1.0	\$1.1	\$1.2	\$1.3	\$1.5	\$1.6	\$1.8	\$2.0	\$2.2	\$2.5
Debt Service	\$2.1	\$2.1	\$2.1	\$2.1	\$0.8	\$0.8	\$0.7	\$0.0	\$0.0	\$0.0	\$0.0
Purchased Services	\$3.2	\$3.4	\$3.5	\$3.7	\$3.8	\$4.0	\$4.2	\$4.4	\$4.6	\$4.8	\$5.0
Other Operating Expenditures	\$4.2	\$4.5	\$4.8	\$5.1	\$5.4	\$5.8	\$6.2	\$6.6	\$7.0	\$7.5	\$8.0
Total Operating Expenditures	\$59.1	\$62.0	\$64.9	\$68.4	\$70.3	\$73.8	\$77.1	\$80.3	\$83.9	\$87.9	\$91.8
Transfers Out											
New Capital	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0
Other	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4	\$0.4
Total Transfers Out	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4	\$1.4
Total Expenditures	\$60.5	\$63.4	\$66.3	\$69.8	\$71.7	\$75.2	\$78.5	\$81.7	\$85.3	\$89.3	\$93.1
Percent Change	N/A	4.9%	4.5%	5.3%	2.7%	4.8%	4.4%	4.0%	4.4%	4.7%	4.3%

Table 57: Total General Fund Balance Projections, FY2026-2036, in Millions

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Total Revenues	\$60.5	\$63.0	\$64.8	\$67.0	\$69.2	\$71.6	\$74.1	\$76.8	\$79.5	\$82.5	\$85.7
Total Expenditures	\$60.5	\$63.4	\$66.3	\$69.8	\$71.7	\$75.2	\$78.5	\$81.7	\$85.3	\$89.3	\$93.1
Net Fund Balance Change	\$0.1	(\$0.5)	(\$1.5)	(\$2.8)	(\$2.6)	(\$3.5)	(\$4.4)	(\$4.9)	(\$5.8)	(\$6.8)	(\$7.5)
Total Fund Balance	\$34.9	\$34.4	\$32.9	\$30.1	\$27.6	\$24.0	\$19.6	\$14.8	\$9.0	\$2.2	(\$5.2)

Comparison to Initial Projections

The figure below compares preliminary outlook (projected gap) projections as presented to the Finance Commission on February 2nd compared to the updated projections after incorporating their feedback, continuing to refine for one-time adjustments, and adjusting growth assumptions based on revised “normalized” trends.

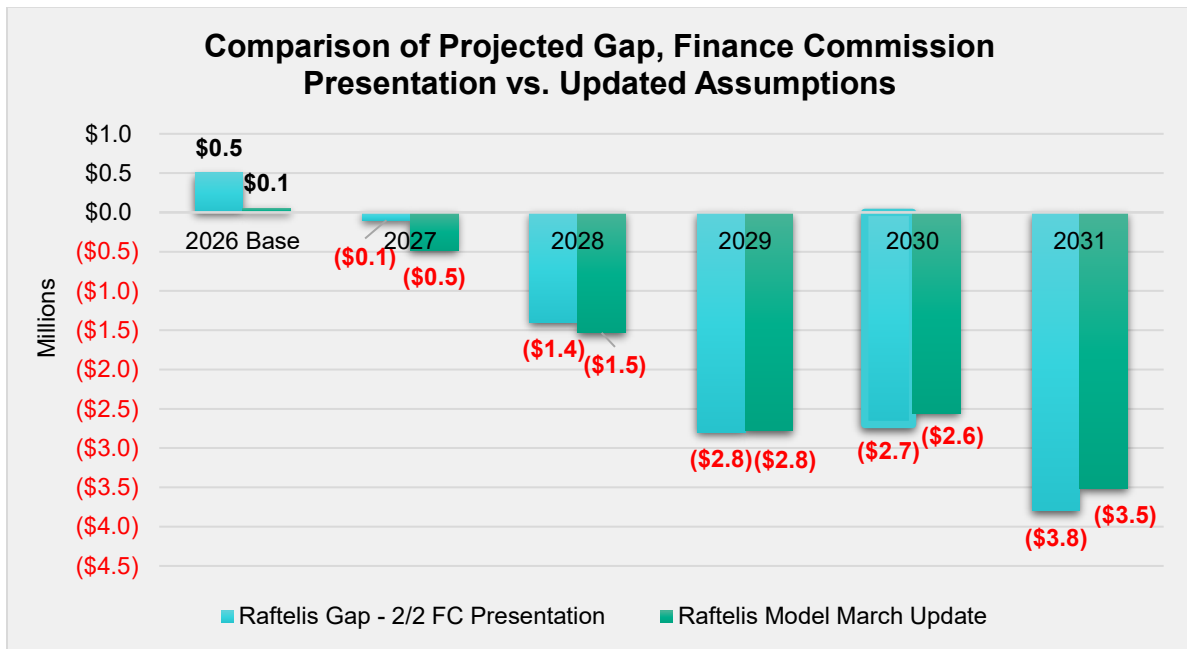


Figure 4: Comparison of Projected Gap, in Millions

The following table compares past and current assumptions in greater detail and provides some context for any changes.²¹

²¹ Only compares categories where assumptions were reported in the February Finance Commission meeting.

Table 58: Comparison of Assumptions by Category

Category	Finance Commission Assumption	Updated Assumption	Comments
Revenues			
Property Tax	5.1%	5.2%	Slight refinement based on HdL report and discussions with staff
VLF Backfill	5.2%	5.4%	Slight refinement based on updated assumptions on property value trends
Sales and Use Tax	2.0%	2.0%	
Licenses & Permits	1.2%	0.4%	Revised downward based on trends in building permit value
Town Services	1.1%	3.0%	Revised upward because permit valuation trends are not weighted as heavily
Business License Tax	1.5%	1.5%	
Transient Occupancy Tax	3.0%	3.0%	
Investments	2.6%	2.6%	
Operating Expenditures			
Salary and CalPERS	Based on inflation	Based on collective bargaining agreements and past history	Changed per Commission direction
Other Benefits	6.6%	6.6%	
OPEB	7.7%	7.7%	
Materials and Supplies	10.1%	7.4%	Refined with additional feedback on excluded one-time costs
Grants and Awards	0.0%	0.0%	
Utilities	8.0%	10.6%	Refined with additional feedback on projected utility cost trends
Purchased Services	9.8%	4.6%	Refined with additional feedback on excluded one-time costs
Other Operating Expenditures	7.1%	6.7%	Refined with additional feedback on excluded one-time costs
Internal Service Funds			
Liability Self-Insurance Fund	7.0%	7.0%	
Workers' Compensation Self-Insurance Fund	2.0%	2.3%	Refined based on staffing cost trends
Facilities Maintenance Fund	15.0%	7.2%	Refined based on further discussions with staff
IT Fund	3.0%	3.0%	
Equipment Replacement Fund	3.0%	3.0%	

Next Steps

The Finance Commission and Town Council will have the opportunity to review the detailed assumptions outlined in this memo and provide feedback during regularly scheduled meetings in April. Raftelis will then incorporate recommendations and adjust the model assumptions and baseline financial outlook as appropriate in consultation with Town staff. A final report will then be provided to the Finance Commission and Town Council, as work among the consultants shifts to finalizing detailed scenario analysis that builds from the baseline model assumptions. The scenarios will be used to guide policy discussion during May-June.



TO: Chris Constantin, City Manager, Town of Los Gatos
FROM: Michael Medve, Principal Consultant, Willdan
DATE: April 7, 2026
SUBJECT: Summary of Assumptions in Fiscal Impact Study

In February of 2026, Willdan prepared a Fiscal Impact Analysis for the Town of Los Gatos (the "Town") to evaluate the annual fiscal impacts of residential development considered in the Town's Housing Element and related planning work through 2040.

Community Development subsequently recommended several refinements to the development and revenue assumptions used in the study. The updated assumptions are provided below in bullet point form.

Revenues

- Residential development assumptions were updated to use the average of the more aggressive and more conservative development scenarios through 2040, totaling 3,263 units, inclusive of 400 accessory dwelling units (ADUs).
- For purposes of the study, the same number of units is assumed to be developed each year during the study period.
- ADUs may be rented to or sold to low- and moderate-income households, but no percentage is assumed for the purposes of this analysis.
- Affordable units are assumed to comprise approximately 15% of non-ADU units, rather than the 60% estimate cited in the Housing Element. The reduction was applied proportionately across the non-ADU development program, in accordance with Community Development's recommendation.
- Because there was no direct source for the price of a market rate multi-family unit in Los Gatos, Willdan used an amount equal to 70% of the overall median home value (according to Zillow), which is a common assumption. This came out to \$1,711,935.
- Since there is a mix of affordable and market rate units, Willdan disaggregated the development by type of housing unit and calculated the weighted average home value to estimate increase in assessed value.
- An ADU is assumed to raise a Bay Area home's property value by \$200,000 to \$500,000, based on information from various online sources. ADUs can either be rented or sold, but in either case, the assessed value associated with an ADU is assumed to be \$350,000 for the purposes of this analysis.

- The weighted average AB 8 apportionment factor for secured property taxes (1% of secured assessed value) was calculated to be about 9.5%. Property Tax In-Lieu of VLF came out to an additional 2.8%.
- Sales tax revenues are equal to 1.125% of taxable sales, which includes the general sales tax rate and Measure G.
- Taxable sales were estimated by estimating the household income for each type of new unit and deriving the percentage of income that would generate taxable sales from the Consumer Expenditure Survey. This allowed me to estimate the taxable sales for Los Gatos that come from each new household.
- A leakage rate estimate of 40% was used for the primary sales tax analysis. Some studies have shown higher leakage rates for small suburban communities, but online retail has increased substantially in recent years, and the use tax mechanism will capture those revenues from Los Gatos residents.
- An alternative estimate for sales tax was calculated using a multivariate analysis among cities in Santa Clara County to approximate the increase in taxable sales associated with new residential development. After reducing the number of affordable units, the results are comparable to the household expenditure-based estimate.
- Other revenues evaluated in the study include Franchise Fees, Licenses & Permits, and Fines & Forfeitures. These were determined using multipliers that account for both residents and employees. The resident estimate at buildout is driven by the updated housing development assumptions summarized above.
- Franchise fees are estimated at \$23.77 per new resident.
- Licenses & Permits are estimated at \$144.00 per new resident.
- Fines & Forfeitures are estimated at \$7.18 per new resident.

Expenditures

- Police Department, Parks & Public Works, Community Development, and Library Services were used to develop multipliers to estimate future expenditures.
- Non-Departmental, Administrative Services, and Town Council expenditures were considered overhead. After excluding non-operating expenditures, the overhead percentage rate for operations was calculated to be 28.9%.
- Adjustments were made to Parks/Public Works, Community Development, and Non-Departmental to account for fees collected for services. The amounts taken from the Adopted Budget were deducted from the expenditure total to arrive at a net cost.
- Police Department is estimated at \$690.26 per new resident.
- Parks and Public Works is estimated at \$332.21 per new resident.
- The Public Works budget does not include any adjustments to address deficiencies in infrastructure and maintenance budgets identified by Town staff.
- Community Development is estimated at \$121.75 per new resident.
- Library is estimated to be \$141.33 per new resident.

Other Assumptions

- Unless otherwise noted, the Fiscal Year 2025-26 Budget estimates were used.
- Number of residents from CA Department of Finance population estimates equal to 33,355.

- Number of employees comes from the Census Bureau's "On the Map" tool. 2023 "All jobs" estimate was used, yielding 21,105 jobs.
- Persons served estimate is equal to population plus 50% of employees.

If you have any questions about this memorandum, please feel free to contact Mike Medve at (951) 587-3575.