TOWN OF LOS GATOS
COUNCIL AGENDA REPORT

MEETING DATE: 11/17/2026
ITEM NO: 9

DATE: November 17, 2026

TO: Mayor and Town Council

FROM: Chris Constantin, Town Manager

SUBJECT: **Receive the Fiscal Year 2026-27 First Quarter Financial Report and the Preliminary Unaudited Fiscal Year 2025-26 Year-End Results**

RECOMMENDATION: Receive the Fiscal Year 2026-27 First Quarter Financial Report and the preliminary unaudited Fiscal Year 2025-26 Year-End Results.

FISCAL IMPACT:

This item has no fiscal impact. Receiving this informational report has no direct fiscal impact and does not amend appropriations or estimated revenues.

First-quarter FY 2026-27 revenues across all funds totaled $13.7 million, or 14.8% of revised estimates, while expenditures and encumbrances totaled 22.2% of revised appropriations. Preliminary unaudited FY 2025-26 results show an approximately $5.9 million increase in the combined General Fund balance. No budget action is requested with this report.

STRATEGIC PRIORITY:

The First Quarter Report supports the Council's Fiscal Stability priorities by promoting prudent financial management, transparent budget monitoring, and accountability for Town funding resources.

BACKGROUND:

As part of the Town's new ongoing monthly financial reporting process, staff is providing standardized expenditure and revenue reports that present financial activity by fund and expense and revenue category levels.

PREPARED BY: Kristina Alfaro
Administrative Services Director

Reviewed by: Town Manager and Town Attorney

All the attached reports were provided to the Finance Commission in its November 9, 2026, meeting agenda packet. In addition, reports by department and by department and category were also provided. The Commission received and forwarded the reports to the Town Council. The following questions were received by staff on this item. Responses were not provided at that time but are included below.

1. How much of the $0.67M permit variance is the tree-removal reclassification, and how much is volume?

   Approximately $300k was tree removal reclassification.

2. Did the business license audit produce one-time collections in FY 2025-26?

   The business license audit would produce lower collections from non-compliant accounts in the first year because the consultant receives a percentage of accounts brought into compliance. In subsequent years, should the business remain in the Town, we would receive the full amount of business license revenue.

3. Does the $66.7M include earnings of fund 732, the Section 115 pension trust?

   No, the unrealized earnings for the 115 pension trust are removed from the fund balance number.

4. Of the $1.73M contract savings, how much was deferred work, and how much was carried into FY 2026-27?

   Approximately $360K was carried forward to FY 2026-27.

5. What was the actual vacancy rate by department against the budgeted 4.6%, and how much Police overtime covered vacancies?

   The FY 2025/26 budget already incorporates a 4.6% vacancy savings factor in departmental salary budgets. As a result, any department that was over budget did not meet the 4.6% vacancy factor, and any departments with a positive percentage met and exceeded that number. The table below shows vacancy rates above the 4.6%, excluding overtime costs.

Personnel Costs Excluding Overtime (General Fund Only)

Department	Budget (Excl. OT)	Actual (Excl. OT)	Additional Savings/ (Overage)	Vacancy Rate above/(below) 4.6%
Town Council	$195,446	$200,779	($5,333)	-2.73%
Townwide	$690,000	$690,093	($93)	-0.01%
Town Attorney	$539,889	$555,562	($15,673)	-2.90%
Administrative Services	$6,069,136	$5,860,369	$208,767	3.44%
Community Development	$4,383,075	$4,227,684	$155,391	3.55%
Police	$18,641,817	$16,977,333	$1,664,484	8.93%
Parks and Public Works	$7,199,060	$7,008,565	$190,495	2.65%
Library	$2,565,671	$2,589,475	($23,804)	-0.93%
Total	**$40,284,094**	**$38,109,859**	**$2,174,235**	5.40%

Excluding overtime, the Police Department generated approximately $1.66 million of personnel savings beyond the budgeted vacancy factor. Police overtime expenditures totaled approximately $1.37 million, exceeding the overtime budget by approximately $776K. After offsetting the overtime overage, Police still realized approximately $889K in net personnel savings or 4.8% instead of 8.9%.

6. Why were benefits 11% to 16% under budget with salaries on budget, and why is PERS still 18.6% under?

   Overall benefits were under because, although the 4.6% vacancy savings is calculated on total salary and benefits, the reduction is only applied to salaries. This results in benefit accounts coming in significantly under budget. CalPERS is lower because the Town budgets the full unfunded actuarial liability payments as if they were monthly payments. The Town pays this as an upfront lump sum payment to garner additional savings from CalPERS of $204k.

7. What is the $3.81M of transfers out in the FY 2026-27 budget, against $0.3M in FY 2025-26?

   The transfer out is due to a transfer out of the General Fund unassigned fund balance to the Capital Project Funds – Future Community Benefit. These are proceeds from the sale of 4 Tait that have been allocated to this fund by the Town Council.

8. Why did pass-through leave $0.19M in the General Fund, and have the crosswalk errors been corrected?

The known permitting-to-financial-system crosswalk errors have been corrected. Staff is separately reconciling the remaining approximately $0.19 million difference between pass-through revenue and expenditures and anticipates providing the result with the Annual Comprehensive Financial Report in December.

9. Does the Raftelis forecast exclude pass-through? Please restate Item 6's reconciliation like-for-like and correct its $6.6M breakdown.

   Staff is working with Raftelis to provide the like-for-like reconciliation. We anticipate having this updated with the NHA final reports in December.

10. Will the mid-year report separate the surplus into recurring, delayed and one-time amounts, and rebase the forecast on normalized results?

    Yes.

The quarterly reporting format approved by the Town Council at the October 6, 2026 meeting was used.

As part of the Town's new ongoing monthly and quarterly financial reporting process, staff are providing standardized expenditure and revenue reports that present financial activity with multiple levels of detail. These monthly and quarterly reports are intended to enhance transparency, support monitoring of departmental spending, and ensure timely administrative oversight.

Financial reporting is completed two months in arrears to allow for the closing of each accounting period, verification of transactions, and reconciliation of revenue postings. As a result, the First Quarter Financial Report that includes revenue and expenditure data through September is being presented in November 2026. In addition, this report also contains preliminary FY 2025-26 year-end unaudited reporting for all funds and analysis for the General Fund.

DISCUSSION:

The First Quarter Financial Report provides expenditure and revenue information with the following breakdowns

1. **By Fund**
   Total expenditures and revenues for each Town fund, allowing for high-level review of fiscal performance across all funding sources.
2. **By Fund and Category**

Expenditures and revenues within each fund divided into major categories such as personnel, operating, capital, charges for services, taxes, and other revenue types.

3. **Historical Reports by Fund and Revenue, Expense and by Department for the General Fund**
   Revenue and expenditures for a 4-year period. Includes 3 prior years and the current fiscal year.
4. **Prior fiscal year-end revenue and expenditure reports by Fund**
   Provided only in the first quarter report, these provide preliminary unaudited year-end revenue and expenditure totals by fund.
5. **Prior fiscal year-end reports by fund and category for the General Fund only**
   Provided only in the first quarter report, these provide preliminary unaudited year-end numbers for the General Fund by revenue and expense categories.

Analysis Overview

The first-quarter financial report supports monitoring of budget-to-actual performance and identification of variances. Unlike monthly reports, it includes a preliminary unaudited prior-year General Fund analysis, reporting by individual fund rather than fund type, and a look ahead to mid-year reporting.

Staff compares first-quarter FY 2026-27 results with the same period from the prior three fiscal years, using a 25% straight-line benchmark for illustration while relying primarily on historical trends. The analysis begins at the fund level, followed by detailed General Fund reviews by category and department, and includes vacancy savings across all funds. Revenue collection is calculated as year-to-date actuals divided by the revised budget, while expenditures include both actuals and encumbrances. Because encumbrances convert to actual expenditures as obligations are paid, early variances are expected to normalize.

However, budgets exceeding 100% are reviewed for possible adjustment. The Town uses modified accrual accounting, and most early-year anomalies involving receivables, encumbrances, and carryovers should have resolved by the end of the first quarter, with any remaining issues discussed in the report.

CONCLUSION:

The preliminary unaudited FY 2025-26 year-end results reflect a favorable position for the General Fund. Actual revenues totaled $66.7 million, or 4.2% above the revised budget, and expenditures totaled $60.8 million, or 4.6% below the revised budget. This resulted in an approximately $5.9 million increase to the General Fund balance. Although some of the favorable revenue variance resulted from one-time or accounting-related activity, overall results show revenues exceeded expectations and expenditures remained below available

appropriations. The Town will present recommendations for the final year-end surplus in the mid-year financial report.
Both revenue and expenditure reports for the quarter provide a generally favorable picture of the Town's financial performance. Revenue collections are trending above the prior three-year range overall, while expenditures and encumbrances are trending below historical levels. General Fund revenues are 17.3% collected, compared with a historical range of 11.0% to 14.7%. General Fund expenditures and encumbrances are 22.1% of the revised budget, compared with a historical range of 25.3% to 26.5%. Delays in reporting between the Community Development and Finance systems are resulting in the Q1 revenue numbers being understated by approximately $1.2 million in the Licenses and Permits and Town Services revenue categories in the General Fund. Staff anticipates posting these items to the financial system by the October monthly reports.

Salaries are at 20.1%, slightly below the 20.3% pay-period benchmark, while overtime is at 22.3% and above the benchmark. PERS, medical benefits, and other benefits remain below the 25% monthly benchmark.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:
1. First Quarter Financial Report
2. Expenditure by Fund
3. Expenditure by Fund and Category
4. Revenue by Fund
5. Revenue by Fund and Category
6. Historical First Quarter Reports
7. FY 2025-26 Year-end Expenditures by Fund Report
8. FY 2025-26 Year-end Revenues by Fund Report
9. FY 2025-26 Year-end General Fund Expenditures by Fund and Category
10. FY 2025-26 Year-end General Fund Revenues by Fund and Category