TOWN OF LOS GATOS

ASSET LIABILITY MANAGEMENT REPORT

Analysis of Capital Funding, Long-Term Liabilities, Reserves, and Revenue Requirements

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Executive Summary

The asset liability management analysis evaluates the Town of Los Gatos' capital requirements, long-term pension and retiree health liabilities, cash reserves, prospective borrowing, development-related revenues, and structural deficit as components of one integrated long-range financial framework. This analysis is for the period from FY 2026-2027 through FY 2035-2036, a ten-year period. This is consistent with the Raftelis report. The principal conclusion is that the size and timing of the capital improvement program (CIP), together with the availability of recurring revenue, are the dominant determinants of fiscal sustainability. Pension cost management can improve the timing and amount of required payments, but it does not replace a capital affordability decision or a recurring revenue strategy.

This report uses the long term structural deficit projected in the Raftelis report as a baseline for all cash flow analysis. The Town does have a long term structural deficit. This report covers a number of options that Town has for eliminating or reducing that deficit. One change is made to the annual deficits projected in the Raftelis report – the use of existing OPEB reserves to fund annual OPEB payments. This is explained in more detail elsewhere in this report.

The historic CIP approximated $4 million or more annually and was concentrated on roadway repairs and improvements. Its principal recurring sources include gas tax revenues, pass-through receipts from the Santa Clara Valley Transportation Authority's 2010 and 2016 tax measures, and traffic and storm-drain impact fees. Prior-year capital fund balances also support the program. The General Fund annual contribution was eliminated for FY 2025-2026 because of the structural deficit, demonstrating that even the existing program competed for General Fund capacity.

The potential capital program considered by this analysis is substantially larger. It includes approximately $20 million of Tier 2 projects, a Highway 17/Highway 9 interchange with an estimated total cost of at least $180 million, a proposed police building estimated at $70 million, and a Town Hall renovation described as a rough low-side estimate of $25 million or more. Tier 3 projects are excluded. Under the modeled assumptions, Tier 2 is funded on a pay-as-you-go basis over ten years with 5 percent annual cost inflation, while the major facilities and the local share of the interchange contribution are debt financed. The annualized cost of this expanded program, rather than pension intervention, is the primary driver of the long-term structural deficit. In addition, this report includes estimates of the Town's Unprogrammed CIP. These projects are implied by funding for studies and design in current Town CIP documents, but for which actual project costs are not shown. The interchange analysis contains an unresolved local-share assumption. A 20 percent local share is described as potentially necessary for the project to gain traction, which would equal approximately $36 million on a $180 million project. The modeled financing instead assumes a Town contribution of $18 million, consisting of $5.4 million of cash for biddable plans and full permitting and $12.6 million financed through lease revenue bonds. The $18 million modeled contribution is retained, but the difference between the practical funding threshold and the modeled share must be resolved before the forecast is used as an implementation plan.

The potential debt program assumes lease revenue bond financing for the police building, the $12.6 million net interchange contribution, and the $25 million Town Hall renovation. Project costs total $107.6 million. After a 1 percent issuance-expense assumption, the modeled financing amount is $108.676 million. At a 5 percent interest rate over 30 years, estimated annual debt service is approximately $7.070 million. Borrowing reduces the immediate construction-period draw on reserves, but the resulting fixed annual obligation materially increases the structural deficit.

The analysis identifies $34.413 million of cash balances across restricted, non-spendable, committed, assigned, and unassigned categories that are legally available in one form or another to support the General Fund. This includes a $4.171 million pension-related restricted balance (Section 115 Trust), $159,000 of non-spendable resources, $16.377 million of committed balances, $5.261 million of assigned balances, and $8.445 million of unassigned fund balance. For high-level modeling, nonrestricted resources and certain committed amounts are aggregated to show the overall liquidity capacity. Actual use remains subject to legal restrictions, adopted policies, intended purposes, and minimum operating-liquidity requirements.

The other post-employment benefits (OPEB) position is comparatively well funded. More than $30 million of invested assets support an actuarial liability exceeding $38 million, producing a funded ratio above 75 percent. The June 30, 2025 actuarial valuation shows a FY 2026-27 actuarially determined contribution of approximately $1.732 million and a recommended net trust reimbursement of approximately $705,000. The policy issue is whether continued funding of the OPEB unfunded liability provides greater long-term value than preserving liquidity or funding capital and pension priorities.

The CalPERS pension analysis uses the June 30, 2024 valuation as the formal baseline and incorporates expected June 30, 2025 results for scenario development. The unfunded accrued liability (UAL) is approximately $67.2 million at June 30, 2024 and is

expected to decline to approximately $60.1 million at June 30, 2025, primarily because of 12.1 percent investment returns. Historical results indicate that CalPERS investment performance can change the Town's UAL and payment schedule by amounts larger than the modeled benefit of an Additional Discretionary Deposit (ADP). That factor is potentially more consequential than the ADP decision, but it is also outside the Town's control and highly uncertain.

The pension scenario analysis compares a $4.2 million ADP applied to long or short bases, Section 115 trust payment smoothing, and an approximately $8.2 million ADP directed to bases with ten years or less remaining. The larger ADP produces approximately $10.7 million of gross payment relief through fiscal year 2036 and approximately $2.5 million of modeled net reduction after the initial use of funds. The analysis indicates that a targeted ADP can make financial sense, especially when relief is concentrated during the payment peak, but it is not a gamechanger for the long-term structural deficit because its annual benefit is small relative to the cost of the expanded CIP and associated debt service.

Development is modeled as a potential source of both one-time capital revenue and recurring service revenue. The analysis assumes 3,263 residential units through 2040, including 400 accessory dwelling units, or approximately 230 units annually. A simplified impact-fee allocation and a $750 annual Mello-Roos services and facilities tax on each new unit generate combined modeled receipts rising from approximately $1.63 million in FY 2026-2027 to $4.32 million in FY 2036. Taxing new development has a significant positive impact on long term General Fund cash flows because the revenue grows over time and can materially offset the deficit. However, the timing and amount of new revenues are highly uncertain because development activity is volatile and the fee and tax structures are not yet implemented.

The analysis evaluates two scenarios. Scenario 1 is a master cash flow through FY 2035-2036 for the General Fund reflecting all major assumptions, including potential new revenue sources and a CalPERS intervention described in this report. Scenario 1 also includes a reduction in the original structural deficit estimated by Raftelis done by Town staff to reflect changes in how OPEB is managed. Scenario 2 is the same as Scenario 1 with the exception that additional reductions to the structural deficit projected by Raftelis from COLA reductions is also shown. The fundamental metric used in this analysis is the percent of the annual debt service for a lease revenue bond to fund the full CIP for the Town that can actually be supported without draining down cash balances below their starting level after the CalPERS intervention. Scenario 1, the baseline shows that the Town can afford about 8% of the $118.5 million CIP shown in this report. Scenario 2 shows that it can afford about 30% of that CIP.

The results establish a consistent hierarchy of fiscal drivers for the Town’s General Fund. The scale of the CIP, both cash funded and debt funded, is the principal controllable driver of the long-term deficit. New taxes are necessary in every modeled scenario, although the required tax base and amount differ materially. Development-related taxation can substantially improve the outlook but remains exposed to the building cycle. A targeted ADP can reduce pension costs and improve near-term capacity, but it does not solve the structural deficit problem. Future CalPERS performance may have a larger effect than an ADP, but it is similarly uncertain and should not be treated as a dependable funding source.

Principal Objective Takeaways

1. The size and timing of the expanded CIP are the principal controllable drivers of the Town's long-term structural deficit. The Town cannot afford 100% of the identified CIP (including the Unprogrammed CIP) without either new revenues or cost savings not shown in this report.
2. A targeted ADP can make financial sense and provide useful near-term relief, but its benefit is not large enough to offset the annualized cost of the full capital program.
3. Future CalPERS investment performance may have a larger fiscal effect than the modeled ADP, but it is volatile, outside the Town's control, and unsuitable as a dependable budget solution.
4. Every modeled scenario depends on a new tax or exaction; no scenario resolves the structural imbalance using existing revenues alone.
5. Impact fees and a new-development Mello-Roos tax can materially improve the forecast and may be a gamechanger if development occurs as assumed.
6. Development-related revenue remains highly uncertain because construction timing, unit mix, affordability, absorption, and legal implementation can differ from the model.
7. Project prioritization, minimum reserve targets, the structure of new revenue, and the timing of pension and OPEB actions are the principal policy decisions requiring Town direction.

1. Introduction and Scope

Asset liability management (ALM) is used in this report as an integrated planning framework rather than as a narrow investment-management exercise. The Town's assets include cash reserves, pension and OPEB trust balances, capital assets that may support lease financing, and prospective development and tax revenues. Its liabilities and claims on future resources include the structural General Fund deficit, current and expanded capital requirements, debt service, pension payments, OPEB costs, and the need to maintain operating and emergency liquidity. The analytical objective is to evaluate these elements together so that an action that improves one part of the financial position is not considered without its effect on other funding needs and overall cash position

The analysis evaluates six interrelated questions:(1) whether and how to add Tier 2 projects; (2) how to address the Highway 17/Highway 9 interchange, police building, and Town Hall; (3) whether debt can preserve liquidity without creating unaffordable fixed costs; (4) whether pension and OPEB resources should be used to reduce or smooth payments; (5) whether new development can fund a meaningful share of capital and service costs; and (6) what recurring new tax revenue would be required under each capital scenario.

The report is intended for policy-level review. It describes modeled relationships and tradeoffs but does not determine project necessity, establish legal authority, select a financing structure, or recommend a final ballot measure. Those decisions require updated technical, legal, financial, and community analyses.

2. Analytical Framework and Limitations

The analysis is high level and relies on assumptions that vary in precision. Some values are documented account balances or actuarial results; others are preliminary project estimates, simplified development assumptions, or illustrative financing and tax structures. The results should be interpreted as sensitivity tests rather than forecasts or guarantees. The principal controllable variable is the size and timing of the CIP. The principal external variables are CalPERS' performance and the pace of new development. Both external variables can materially change the result, but neither should be relied upon as a certain source of fiscal improvement.

Fund-balance classifications have different legal and policy implications. Restricted balances are constrained by external requirements. Non-spendable balances are not available in spendable form. Committed and assigned balances reflect formal or intended uses that may require governmental action to change. Unassigned balance is the residual category, but it remains necessary for working capital, emergencies, and volatility. The cash-flow model generally aggregates nonrestricted balances, including some amounts committed for pension and OPEB purposes, to measure broad liquidity. That treatment is analytically useful but does not establish that all balances are available for any purpose.

Table 1. Key Modeling Assumptions

Assumption Area	Modeled Assumption	Status / Limitation
Forecast period	Generally FY 2025-2026 through 2035-2036	High-level cash-flow horizon; selected pension schedules extend beyond FY 2035-2036.
Existing CIP	Approximately $4+ million annually through FY 2029-2030	Primarily roadway work; funding sources and carryover balances may vary.
Tier 2	Base estimate of $20 million; $2 million in first year, inflated 5% annually for 10 years	Pay-as-you-go; no Tier 3 funding.
CIP grants	$500,000 annually for tier 2	Assumed, not identified by award.
Interchange	$180+ million total; modeled Town share of $18 million (10% local share)	Conflicts with statement that 20% local share may be minimum; $5.4 million cash and $12.6 million debt are modeled.
Police building	$70 million	Town estimate; modeled as fully debt financed.
Town Hall renovation	$25 million	Rough low-side estimate; modeled as debt financed.
Lease revenue bonds	30 years; 5.0% interest; 1.0% issuance expense	Produces approximately $7.07 million annual debt service; asset and affordability analysis required.

Assumption Area	Modeled Assumption	Status / Limitation
Cash earnings in integrated forecast	No separate investment-earnings line in the revised schedule	The reproduced forecast does not add cash investment earnings; actual results may differ.
Pension scenarios	$4.2 million existing Section 115 resources; approximately $8.2 million for larger ADP; all ADP scenarios assume interest savings of 6.8%	ADP savings are smaller than the annualized full-CIP cost; future CalPERS performance may have a larger but uncertain effect. ADP 6.8% interest is also not guaranteed and is based on future CalPERS investment performance
Section 115 Trust earnings	4.9% conservative and 7.0% moderate/aggressive	Modeling assumptions, not guaranteed returns.
Development	3,263 units through 2040, including 400 ADUs; 230 units annually in projection	Potentially material fiscal benefit, but pace, mix, absorption, and timing are volatile.
Impact fee	$6,329 illustrative per-unit allocation, inflated 5% annually	Simplified allocation; an AB 1600 study is required.
New-development special tax	$750 per new unit, inflating 2% annually	Illustrative Mello-Roos assumption; implementation and legal review required.
Town-wide parcel tax	$200 per parcel on approximately 11,400 parcels; 2% inflator; collection beginning FY 2028-2029	Illustrative structure and timing; Tier 2 remains positive only through FY 2033- 2034 under the revised sensitivity.
Town staff estimated structural deficit reductions from salary cost of living adjustments (COLA) and the utilization of the OPEB/Retiree Medical Trust	Assumes annual cola aligned with historical trends vs the most recent negotiated adjustments. Using the most recent actuarial valuation as of June 30, 2025, staff included increased revenue from the drawdown of the OPEB Trust Fund. Use of these funds would still result in a 99.5% funded status at the end of the 10-year forecast period.	COLA Adjustments decreased forecasted expenditures between $0.3M to $2.8M. Use of OPEB Trust increases annual revenues from $0.1M to $1.6M.

Source: NHA Advisors asset liability management analysis using stated assumptions.

3. Existing Capital Improvement Program

The historic CIP was approximately $4 million or more per year through FY 2029-2030. Gas tax receipts and pass-through revenues from VTA's 2010 and 2016 tax measures are identified as principal sources, together with traffic and storm-drain impact fees and prior-year capital balances. The General Fund annual contribution was eliminated for FY 2025- 2026 because of the structural deficit. This existing constraint is important because the potential expanded CIP is substantially larger than the current program.

The existing program was primarily directed to road repairs and improvements. For analytical purposes, all remaining Tier 1 projects are considered fully funded. Tier 2 consists of approximately $20 million of additional projects that are not currently funded at the same level. Tier 3 is a further set of potential projects that is excluded entirely from the modeled cash flows. The tier structure is therefore a prioritization device: Tier 2 is an expansion tested in the model, and Tier 3 remains outside the available financial capacity evaluated.

The Tier 2 model begins with a $2 million annual allocation and applies 5 percent annual inflation over ten years. The revised integrated schedule includes a net $1 million Tier 2 amount in FY 2026-2027 and annual outlays increasing to approximately $3.1 million by FY 2035-2036. Since the Raftelis report assumed a $1 million/year Tier 2 CIP in this baseline structure deficit projections, and since this report uses the Raftelis structural deficit projection as a baseline (as revised by Town staff), the analysis assumes only a $1 million/year increase in CIP to fully fund CIP. This escalating pay-as-you-go requirement is a larger and more persistent driver of the structural deficit than the annual payment relief produced by the ADP.

4. Potential Capital Projects Beyond the Existing CIP

The analysis identifies four major categories outside the existing program: Tier 2, the Highway 17/Highway 9 interchange, a new police building, and Town Hall renovation. These projects differ in regional significance, readiness, cost certainty, and potential funding source, but together they define the central affordability question. Even with Tier 3 excluded, the expanded program requires a combination of reserves, debt, grants, development exactions, and Town-wide tax revenue.

Table 2. Potential Capital Projects and Modeled Funding

Project / Program	Estimated Cost	Modeled Town Funding	Proposed Source	Principal Qualification
Tier 2 CIP	$20 million base estimate	$2 million in first year, inflated 5% annually over 10 years. $1 million per year already funded in baseline structural deficit projection	Pay-as-you-go; portion of $500,000 annual combined grants	Scope and schedule require refinement; Tier 3 excluded.
Highway 17/Highway 9 interchange	$180+ million	$18 million modeled, plus additional $5.4 million predevelopment costs	Cash for plans/permitting; $12.6 million lease revenue bonds; outside construction funding	The analysis also states that a 20% local share may be required, implying a higher Town contribution.
New police building	$70 million	$70 million, lease revenue bond	Lease revenue bonds	Town estimate; construction timing and affordability require analysis.
Town Hall renovation	$25+ million	$25 million modeled	Lease revenue bonds	Described as a rough low-side estimate.
On-going Unprogrammed CIP	$3 to $4 million per year	100% funded	Pay-as-you- go	Rough estimate at this time
Onetime Unprogrammed CIP	$10.9 million	100% funded	Lease revenue bonds	Rough estimate at this time
Tier 3	Not specified	None	Not funded	Excluded from all modeled results.

Source: NHA Advisors capital funding analysis using Town-provided project estimates.

5. Highway 17/Highway 9 Interchange

The interchange is the largest individual project and is treated as a pivotal funding question because of its regional function, limited outside-funding capacity, and anticipated 2029 construction start. The analysis estimates the total cost at more than $180 million, with construction from 2029 through 2031. VTA reports that federal, State, and VTA sources are overcommitted and that traffic-related improvements have received lower priority from VTA, while noting that federal priorities may differ.

VTA's current CIP shows a 10 percent local share but characterizes that amount as unrealistically low, stating that 20 percent is the minimum local contribution likely to give the project traction. On a $180 million cost, 20 percent would be approximately $36 million. The subsequent strategy and cash-flow model nevertheless use an $18 million Town contribution. Because the local-share assumption affects debt service, reserve use, and the amount of outside funding required, it is one of the most consequential unresolved model inputs.

The suggested strategy begins with $5.4 million of Town cash to complete biddable specifications and obtain full permitting. This expenditure is intended to advance project readiness while Town officials and stakeholders seek greater VTA sales-tax, Caltrans, and federal participation. For purposes of this report, we assume that this $5.4 million cash contribution does not count towards the $18 million 10% local share threshold. We also assume that the $18 million contribution would be financed through lease revenue bonds. The Town should consider documenting the long-term regional cost of inaction to support external funding advocacy with VTA, and potentially MTC. These items are proposed analytical and advocacy steps, not a formally adopted funding plan.

The principal tradeoff is timing. Cash-funded predevelopment may improve readiness and competitiveness for external funding, but it reduces liquidity before construction funding is secured. However, cash-funded predevelopment keeps the interchange project grant eligible for the time being. Debt financing limits the near-term reserve draw but creates a long-term General Fund obligation. A revised model should show at least the 10 percent and 20 percent local-share cases, as well as the effect of delayed construction and lower outside funding.

It is important to note that VTA's minimum 10% local share requirement is broadly defined – the 10% can come from other sources, such as State or Federal funds. The Town could consider making a major effort to secured CalTrans or Federal funding for this interchange to augment the VTA funds.

6. The Town's Unprogrammed CIP

There are several capital projects that are implied by studies and design work identified in the Town's various CIP documents, but for which construction costs are not shown. Table 3 below shows the ongoing annual Unprogrammed CIP. Table 3 shows one-time Unprogrammed CIP projects. Table 3 ongoing annual Unprogrammed CIP costs are incorporated into both Scenario 1 and Scenario 2 cash flows as pay-go annual expenses. The Table 4 one-time Unprogrammed CIP is incorporated into the potential sizing for the lease revenue bond discussed in Section 7 "Potential Debt Financing Program".

Table 3. Ongoing Unprogrammed CIP Summary

	Fiscal Year									
Project	**2026-27**	**2027-28**	**2028-29**	**2029-30**	**2030-31**	**2031-32**	**2032-33**	**2033-34**	**2034-35**	**2035-36**
Annual Street Repair and Resurfacing	2,000,000	2,100,000	2,205,000	2,315,250	2,431,013	2,552,563	2,680,191	2,814,201	2,954,911	3,102,656
Annual restriping	75,000	78,750	75,001	78,751	75,002	78,752	75,003	78,753	75,004	78,754
Roadside fire fuel reduction				150,000	157,500	165,375	173,644	182,326	191,442	201,014
Vegetation Management Townwide	150,000	157,500	165,375	173,644	182,326	191,442	201,014	211,065	221,618	232,699
ADA Compliance Work	500,000	525,000	551,250	578,813	607,753	638,141	670,048	703,550	738,728	775,664
Total	**2,725,000**	**2,861,250**	**2,996,626**	**3,296,457**	**3,453,594**	**3,626,273**	**3,799,900**	**3,989,895**	**4,181,703**	**4,390,788**

Questions/Assumptions

- Annual street repair and resurfacing costs inflated at 5% per year.
- Annual restriiping and roadside fuel reduction inflated at 5% per year
- Roadside fire fuel reduction work begins in FY 2030, after grants has been depleted
- Annual vegetation management and ADA compliance inflated at 5% per year

Table 4. One Time Unprogrammed CIP Summary

East Main Street Crosswalks	150,000
Blossom Hill Road Union to Camden	2,000,000
Curb Gutter Sidewalk	1,000,000
Santa Cruz Avenue Reconstruction	2,000,000
Loma Draingage	2,000,000
Green Stormwater Infrastructure	500,000
Timber Bridge	1,000,000
Sport Court Resurfacing	750,000
Fleet Outdoor Service Area	500,000
Downtown Restroom	1,000,000
Total	**10,900,000**

7. Potential Debt Financing Program

The model uses a single lease revenue bond program for the proposed police building, the net interchange contribution after cash-funded predevelopment, and Town Hall renovation. Lease revenue bonds generally rely on a lease of eligible public assets and annual appropriations rather than a voter-approved property-tax levy. The Town would need to encumber lien-free assets, and the preliminary analysis indicates that sufficient assets may be available, subject to careful legal, asset, and affordability review.

Table 5. Modeled Lease Revenue Bond Financing

Financed Component	Project Cost	Qualification
Police building	$70,000,000	Town estimate; fully financed in model.
Interchange local share, net of predevelopment	$12,600,000	$18 million modeled local share less $5.4 million cash for plans and permitting.
Town Hall renovation	$25,000,000	Very rough low-side estimate.
Tier 2 / Tier 3/ Ongoing Unprogrammed CIP	$0	Tier 2 and ongoing Unprogrammed CIP are pay-as-you-go; Tier 3 is excluded.
One-time Unprogrammed CIP	$10,900,000	From Table 4 above
Total project cost financed	$118,500,000	Before issuance expenses.

Financed Component	Project Cost	Qualification
Issuance expenses	$1,118,500	Assumed at 1 percent of project costs.
Total financing amount	$119,685,000	Modeled par / financing amount.
Annual debt service	$7,785,681	30-year level-payment estimate at 5.0 percent.

Source: NHA Advisors financing analysis using stated project and debt assumptions.

Debt financing would align repayment more closely with the useful lives of long-lived facilities and reduce the construction-period draw on reserves. It would also create a fixed annual claim of approximately $7.07 million for 30 years. This amount is substantially larger than the annual cash-flow benefit of the modeled ADP. Debt therefore addresses timing rather than affordability and requires a recurring revenue source commensurate with the resulting obligation.

8. Town Reserves and Liquidity

The reserve summary reports total balances of approximately $34.413 million. These balances are not homogeneous. The Section 115 pension amount is restricted; the rehabilitation loan reserve is non-spendable; stabilization, catastrophic, and pension/OPEB amounts are committed; several balances are assigned to specified purposes; and the unassigned balance is approximately $8.445 million.

Table 6. Summary of Town Cash Reserves by Classification

Classification / Purpose	Balance
Restricted — Pension Section 115 trust	$4,170,731
Nonspendable — Rehabilitation loan reserve	$159,000
Committed — Budget stabilization	$7,538,452
Committed — Catastrophic	$7,538,452
Committed — Pension/OPEB	$1,300,000
Assigned — Capital/special projects	$1,983,271
Assigned — Compensated absences	$1,519,243
Assigned — Open space	$410,000
Assigned — Sustainability	$140,553
Assigned — Market fluctuations	$1,201,824
Assigned — Carryover encumbrances	$6,367
Unassigned fund balance	$8,444,847
Total	$34,412,740

Source: Town cash-balance classifications incorporated into the asset liability management analysis.

For the integrated cash-flow analysis, most nonrestricted cash, including amounts committed for pension and OPEB purposes, is treated as an aggregate starting balance. This approach shows the overall trajectory of liquid resources if the Town funds operating deficits, pension interventions, pay-as-you-go capital, and debt service from the same broad pool. It does not imply that all listed amounts can or should be repurposed.

The reserve decision is therefore a portfolio-allocation problem. Cash can fund capital directly and avoid borrowing; it can be contributed to CalPERS or a trust to reduce or smooth pension costs; it can support OPEB; it can absorb the structural deficit; or it can remain available for stabilization and emergencies. Each use has an opportunity cost. A minimum-reserve framework is necessary before the model is used to authorize projects or liability contributions. The Town has a reserve policy. We believe that the cash balances projected in the cash flows in this report are broadly in conformance with the policy.

9. OPEB Liability and Funding Policy

The Town's OPEB plan is reported as more than 75 percent funded, with over $30 million of invested cash reserves against an actuarial liability exceeding $38 million. The analysis states that the Town significantly curtailed future employee OPEB liabilities in 2018. It also distinguishes OPEB from CalPERS by stating that the Town is not subject to an equivalent legal requirement to fully amortize the unfunded OPEB liability. This legal characterization should be confirmed as part of any policy change

Table 7. Selected OPEB Valuation and Contribution Information

Item	FY 2026-27	FY 2027-28
Valuation date	June 30, 2025	June 30, 2025
Discount rate	6.25%	6.25%
Normal cost	$786,226	$761,791
Administrative expenses	$22,750	$24,154
UAAL amortization payment	$923,393	$948,787
Total actuarially determined contribution	$1,732,369	$1,734,732
Estimated explicit benefit payments	($2,146,584)	($2,241,845)
Estimated implicit benefit payments	($290,946)	($310,647)
Recommended net trust contribution / (reimbursement)	($705,161)	($817,760)

Source: Town of Los Gatos Retiree Healthcare Plan, June 30, 2025 actuarial valuation.

The actuarial consultant's recommended negative net trust contribution is effectively a reimbursement or withdrawal because estimated benefit payments exceed the actuarially determined contribution. The analysis uses this result to raise a broader policy issue: whether continued contributions toward the OPEB unfunded liability provide sufficient long-term value when compared with preserving liquidity, funding capital, or addressing pension costs. A final decision would require an updated funding policy, projected benefit cash flows, trust-return assumptions, tax and accounting review, and an assessment of intergenerational equity.

BENEFIT PAYMENT AND PRE-FUNDING PROJECTION – TRUST DISBURSEMENTS

Fiscal Year	Explicit Subsidy Benefit Pmts	Implicit Subsidy Benefit Pmts	Trust Pmt (Reimb.)	ADC	Proj. Payroll (in millions)	ADC % of Pay	Funded % BOY
2026/27	$2,146,584	$290,946	(705,161)	$1,732,369	$21.1	8.2%	77.6%
2027/28	2,241,845	310,647	(817,760)	1,734,732	21.7	8.0%	80.7%
2028/29	2,359,145	371,306	(987,828)	1,742,623	22.3	7.8%	83.8%
2029/30	2,438,680	403,164	(1,094,116)	1,747,728	22.9	7.6%	86.3%
2030/31	2,466,868	376,711	(1,096,536)	1,747,043	23.5	7.4%	88.1%
2031/32	2,596,937	467,863	(1,307,442)	1,757,358	24.2	7.3%	90.1%
2032/33	2,670,452	522,349	(1,418,069)	1,774,732	24.9	7.1%	92.1%
2033/34	2,728,092	563,724	(1,500,313)	1,791,503	25.5	7.0%	94.4%
2034/35	2,801,657	640,255	(1,628,876)	1,813,036	26.2	6.9%	96.8%
2035/36	2,810,881	625,847	(1,601,174)	1,835,554	27.0	6.8%	99.5%

Figure 1. OPEB Actuarially Determined Subsidy Benefit and Reimbursement Payments

The source table shows the composition of the actuarially determined contribution and the projected net trust reimbursement and projected funded ratio.

Source: Town of Los Gatos Retiree Healthcare Plan, June 30, 2025 actuarial valuation.

10. CalPERS Pension Position

The formal pension baseline is the June 30, 2024 actuarial valuation, which reports a UAL of approximately $67.2 million. June 30, 2025 valuation results (released after the Raftelis study was finalized) reduce the UAL to approximately $60.1 million. The change reflects an estimated $11.5 million reduction from 12.1 percent investment returns, partly offset by approximately $700,000 of assumption changes and $3.8 million of non-investment losses. The magnitude of the investment-related change is greater than the modeled net benefit of the ADP and illustrates why future CalPERS performance is a major, but uncertain, driver of the Town's outlook.

Table 8. Selected CalPERS Position and Payment Measures

Measure	June 30, 2024	June 30, 2025	Change / Observation
Unfunded accrued liability	$67.233 million	$60.134 million	Reduction of approximately $7.1 million.
Funded ratio, excluding Section 115 trust	74.0%	77.2%	Improves by approximately 3.2 percentage points.
Effective Funded ratio, including Section 115 trust	74.8%	78.4%	Trust increases funded ratio by about 1.2 percentage points in FY 2024-25.
Modeled cumulative UAL payments	$100.457 million	$87.100 million	Expected 2025 schedule is approximately $13.357 million lower.
Near-term UAL payment peak	Approximately $7.5 million in FY 2030-31 under 2024 schedule	Approximately $7.35 million in FY 2028-29 under expected 2025 schedule	Expected results accelerate decline of the payment peak.

Source: CalPERS actuarial valuation reports and the CalPERS Pension Outlook Tool.

Historical results demonstrate the sensitivity of the UAL to investment performance. The UAL declined from approximately $61.9 million in 2020 to $36.7 million in 2021 after a 22.4 percent return, then increased to approximately $64.9 million in 2022 after a negative 7.5 percent return. A preliminary FY 2025-2026 return of 14.8 percent is not translated into a UAL reduction in the model because the effect was not sufficiently known. Conservative planning should therefore separate known actuarial savings from potential future market performance.

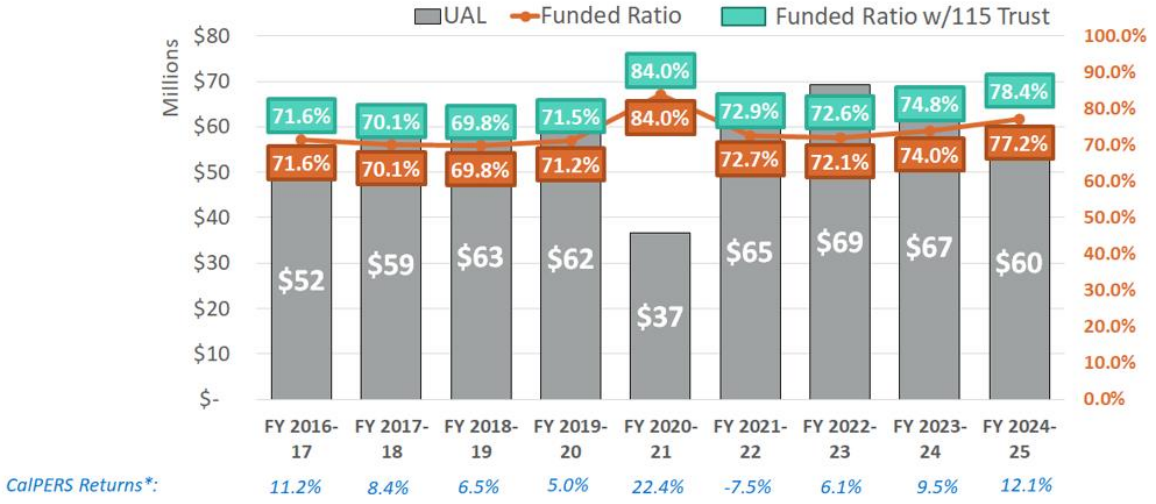


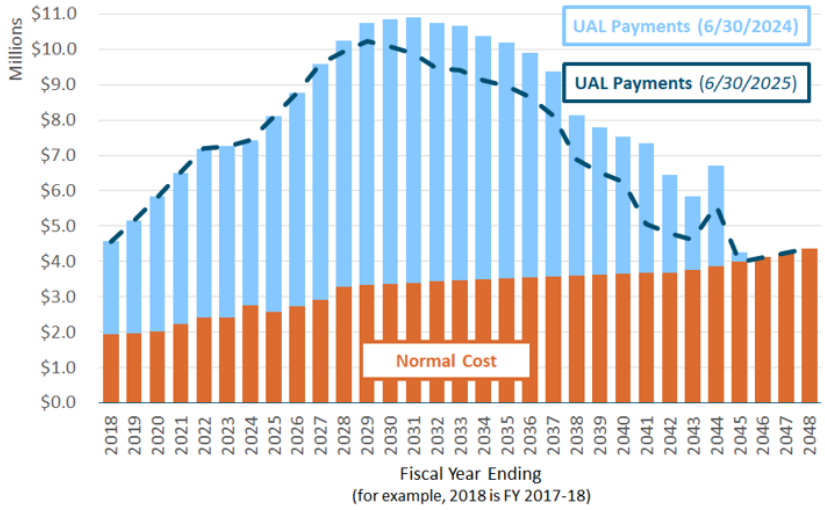
Figure 2. Historical UAL Balance and Funded Ratio

The figure illustrates the relationship between investment returns, the UAL, and the funded ratio from 2017 through expected 2025 results.

Source: CalPERS actuarial valuation reports and the CalPERS Pension Outlook Tool.

Under the expected June 30, 2025 actuarial valuation schedule, annual UAL payments are approximately $6.69 million in FY 2026-27, rise to approximately $7.35 million in FY 2028-29, and decline to approximately $5.54 million by FY 2035-36. Normal cost is projected separately and rises over time. The combination of normal cost and UAL payments therefore remains a material General Fund commitment even as the UAL payment component declines. The reduction in projected UAL payments between the June 30, 2024 actuarial valuation and June 30, 2025 valuation can be seen in Figure 3 below.

Four principal headwinds support conservative planning: future market downturns or return volatility; changes in actuarial assumptions such as the discount rate or inflation; Town salary increases and cost-of-living adjustments above CalPERS assumptions; and potential legislative changes. It should be noted that the benefits of the 12.1% returns from FY 2024-25 were offset by nearly 1/3 (33%) due to "non-investment losses," likely generated by the Town's recent practice of providing larger salary increases/COLAs than those assumed by CalPERS and/or having an increased number of early retirements. Without these non-investment losses, the reduction in UAL would have been $3.8 million more. These risks reinforce the conclusion that favorable CalPERS performance, although potentially more consequential than an ADP, cannot be treated as a reliable solution to the structural deficit.



UAL Payment Comparison
(June 30, 2024 Valuation vs. June 30, 2025 Valuation)

FY	A June 30, 2024	B June 30, 2025	A - B C Difference
2026-27	$6,691,300	$6,691,300	$0
2027-28	$6,946,110	$7,121,868	($175,758)
2028-29	$7,420,188	$7,349,306	$70,882
2029-30	$7,475,956	$7,158,434	$317,522
2030-31	$7,504,822	$6,940,660	$564,162
2031-32	$7,301,051	$6,490,251	$810,800
2032-33	$7,207,877	$6,397,077	$810,800
2033-34	$6,880,697	$6,069,897	$810,800
2034-35	$6,673,106	$5,862,305	$810,801
2035-36	$6,353,674	$5,542,874	$810,800
2036-37	$5,792,152	$4,981,352	$810,800
2037-38	$4,540,010	$3,729,209	$810,801
2038-39	$4,167,824	$3,357,022	$810,802
2039-40	$3,875,434	$3,064,634	$810,800
2040-41	$3,675,949	$2,851,736	$824,213
2041-42	$2,772,939	$1,299,048	$1,473,891
2042-43	$2,086,632	$1,033,080	$1,053,552
2043-44	$2,830,261	$1,159,879	$1,670,382
2044-45	$260,689	$0	$260,689
Total	**$100,456,671**	**$87,099,932**	**$13,356,739**

Figure 3. Historical and Projected CalPERS Payments

The new June 30, 2025 UAL schedule reduces cumulative payments and accelerates the decline from the payment peak relative to the June 30, 2024 schedule.

Source: CalPERS actuarial valuation reports and the CalPERS Pension Outlook Tool.

11. Pension Cost-Management Alternatives

The pension strategies are not mutually exclusive. They vary in whether they directly reduce the UAL, preserve control and liquidity, change the amortization schedule, or transfer investment risk. The alternatives include strategies currently used by the Town, strategies suitable for further consideration, and strategies that are not advisable under the modeled near-term deficits and current market conditions.

Table 9. Pension Cost-Management Alternatives

Alternative	Basic Mechanism	Potential Advantages	Principal Disadvantages / Risk	Source Treatment
Annual CalPERS prepayment	Pay annual UAL amount early in the fiscal year.	Approximately 3.3% prepayment discount; administratively simple.	Uses cash earlier; limited structural effect beyond discount.	Currently used.
Fresh Start	Replace existing bases with a shorter / level amortization schedule.	Less interest over full period; simplified payment pattern.	Higher near-term payments; no flexibility to return to prior schedule.	Not recommended given near-term deficits.
Pension obligation bonds	Borrow to pay off the UAL at an assumed lower borrowing rate.	Potential payment leveling and interest-rate differential.	Investment/reinvestment risk; fixed debt; savings not guaranteed as they are based on future CalPERS investment performance	Not recommended under current market/rate and risk conditions.
Additional discretionary payment	Pay selected amortization bases directly to CalPERS.	Immediate UAL reduction; future payment reduction; implicit 6.8% discount-rate benefit if assumptions are realized.	Irreversible; reduces liquidity and investment control; market timing and reinvestment risk.	Recommended for targeted consideration; financially useful but not sufficient to resolve the structural deficit.

Alternative	Basic Mechanism	Potential Advantages	Principal Disadvantages / Risk	Source Treatment
Section 115 trust	Maintain restricted pension/OPEB assets outside the pension system until withdrawn or transferred.	Budget flexibility, liquidity within restricted purpose, investment options, and payment smoothing.	Does not reduce UAL until transferred; investment risk; requires contributions.	Recommended for smoothing and investment control and budget flexibility.

Source: NHA Advisors analysis of pension cost-management alternatives.

The Town has a history of proactive pension cost management, including consistent early UAL prepayment, a June 2014 payoff of the $4.5 million Safety Plan side fund UAL, set-asides for ADPs totaling $12.7 million, and establishment of a CalPERS Section 115 trust with a current balance of approximately $4.17 million. Existing policy sets aside $390,000 annually and permits up to $690,000 when the Town ends the fiscal year in a positive position.

Selection of ADP bases is central to the timing of benefits. Long bases maximize gross long-term reduction but spread annual relief over a longer period. Short bases produce less total reduction but concentrate relief during the UAL payment peak. A tailored selection can target the desired annual cash-flow profile. In the Town's current circumstances, the relevant question is not whether an ADP can produce savings, but whether the timing of those savings justifies the immediate reduction in liquidity and meaningfully supports the capital and operating forecast.

12. Pension Scenario Analysis

All pension scenarios assume use of the approximately $4.2 million Section 115 trust balance. Scenario 3 requires an additional amount of approximately $4 million from unassigned reserves, resulting in an initial intervention of approximately $8.2 million. Scenario 1A applies the $4.2 million as an ADP to long bases; Scenario 1B uses short bases; Scenarios 2A and 2B use trust withdrawals to smooth payments under 4.9 percent and 7.0 percent earnings assumptions; and Scenario 3 applies the larger ADP to all bases with ten years or less remaining.

Table 10. Comparative Pension Scenario Results

Scenario	Initial Resource Use	Gross Reduction Through FY 2032-33	Gross Reduction Through FY 2035-36	Total Gross Reduction	Net Reduction Through FY 2035-36	Primary Timing / Liquidity Effect
1A — Long-base ADP	$4.2M ADP	$2.363M	$3.545M	$7.556M	($0.625M)	Largest long-term gross reduction among $4.2M alternatives; least near-term relief; irreversible.
1B — Short/tailored ADP	$4.2M ADP	$4.827M	$5.301M	$5.301M	$1.100M	Relief concentrated in payment-peak years; less total gross reduction than long bases.
2A — Trust smoothing, 4.9%	$4.2M trust withdrawals	$4.706M	$4.706M	$4.706M	$0.536M	Levels UAL payments near $6.13M from FY 2027-28 to FY 2032-33; preserves decision flexibility until withdrawals.
2B — Trust smoothing, 7.0%	$4.2M trust withdrawals	$4.952M	$4.952M	$4.952M	$0.782M	Levels UAL payments near $6.08M from FY 2027-28 to FY 2032-33; result depends on higher earnings.
3 — ADP on bases ≤10 years	Approximately $8.2M ADP	$9.167M	$10.651M	$10.651M	$2.465M	Largest near-term relief and reserve draw; irreversible and highest market-timing exposure.

Source: NHA Advisors pension scenario analysis. Net reduction equals modeled gross payment reduction through fiscal year 2036 less the initial resource use. Amounts are rounded.

Scenario 1A reduces annual payments by approximately $393,879 for most of the modeled period, but negative remaining payments would require a roll-up adjustment in FY 2040-41 through FY 2043-44. Its principal limitation is timing: the Town would use $4.2 million immediately but recover only approximately $3.5 million in gross payment reductions through FY 2035-36. The alternative may reduce long-term pension cost, but it provides relatively little support during the period of greatest capital pressure.

Scenario 1B and the two trust-smoothing alternatives concentrate more benefit in the next seven to ten years, when UAL payments are highest. Scenario 3 provides the greatest near-term payment reduction but uses approximately $8.2 million of pension trust and unassigned resources. The larger ADP can make economic sense under the stated assumptions, but the revised integrated forecast demonstrates that the resulting payment relief is not sufficient to offset Tier 2 escalation and the annual debt service associated with the full CIP.

The scenario comparisons do not constitute investment guarantees. An ADP effectively assumes that the benefit of reducing a liability discounted at 6.8 percent will be realized through future CalPERS experience. Trust smoothing depends on trust returns and withdrawal timing. Both approaches reduce cash available for capital, operating stabilization, or unforeseen needs. Future CalPERS' performance may ultimately affect pension costs more than the ADP itself, but that performance is uncertain and should not be embedded as a balancing assumption.

Scenario Modeling - Annual Cost Reductions

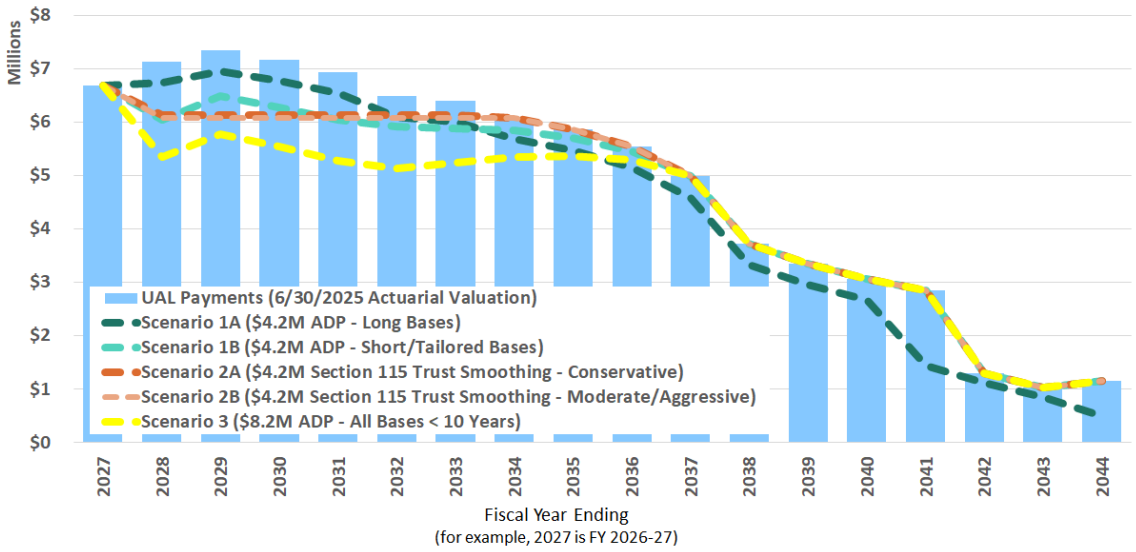
Fiscal Year	Scenario 1A ($4.2M ADP - Long Bases)	Scenario 1B ($4.2M ADP - Short Bases)	Scenario 2A ($4.2M Section 115 Trust Smoothing - Conservative)	Scenario 2B ($4.2M Section 115 Trust Smoothing - Moderate/Aggressive)	Scenario 3 ($8.2M ADP - All Bases < 10 Years)
2026 - 2027	$0	$0	$0	$0	$0
2027 - 2028	$393,878	$1,079,065	$996,658	$1,037,682	$1,778,487
2028 - 2029	$393,879	$858,103	$1,224,096	$1,265,120	$1,577,109
2029 - 2030	$393,879	$882,130	$1,033,224	$1,074,248	$1,621,268
2030 - 2031	$393,879	$906,830	$815,450	$856,474	$1,666,663
2031 - 2032	$393,879	$579,836	$365,041	$406,065	$1,360,944
2032 - 2033	$393,879	$520,590	$271,867	$312,891	$1,162,973
2033 - 2034	$393,879	$232,784	$0	$0	$728,062
2034 - 2035	$393,879	$159,535	$0	$0	$498,965
2035 - 2036	$393,879	$82,001	$0	$0	$256,468
2036 - 2037	$393,879	$0	$0	$0	$0
2037 - 2038	$393,879	$0	$0	$0	$0
2038 - 2039	$393,879	$0	$0	$0	$0
2039 - 2040	$393,879	$0	$0	$0	$0
2040 - 2041	$1,411,009	$0	$0	$0	$0
2041 - 2042	$181,803	$0	$0	$0	$0
2042 - 2043	$181,802	$0	$0	$0	$0
2043 - 2044	$660,658	$0	$0	$0	$0
Total Cost Reduction	**$7,555,696**	**$5,300,874**	**$4,706,335**	**$4,952,478**	**$10,650,938**
Cost Reduction Through FY 2032-33	$2,363,272	$4,826,555	$4,706,335	$4,952,478	$9,167,444
Cost Reduction Through FY 2035-36	$3,544,908	$5,300,874	$4,706,335	$4,952,478	$10,650,938
Net Cost Reduction Through FY 2035-36	*(625,823)*	*1,130,143*	*535,604*	*781,747*	*2,464,767*

Note: Scenario 1A creates annual cost reduction of $393,879 for 20 years. However, given negative UAL remaining payments after ADP from FY 2043-44 to FY 2046-47, a "roll-up" would occur and modify remaining UAL payments from FY 2040-41 to FY 2043-44. Cost reduction estimates above are compared to this "rolled-up" remaining UAL.

Figure 4. Pension Scenario Annual Cost Reductions and Summary Results

The figure summarizes annual gross reductions and modeled net reductions after the initial use of pension resources.

Source: NHA Advisors pension scenario analysis.



13. Preliminary Pension and OPEB Findings

The preliminary pension findings support reconsideration, rather than automatic continuation, of the annual $390,000 Section 115 contribution. A targeted ADP or trust-smoothing strategy can improve budget predictability and provide financial value, particularly if relief is concentrated during the next five to ten years. The analysis does not support treating pension intervention as a solution to the structural deficit: the modeled savings are materially smaller than the annualized cost of the expanded CIP, and the immediate use of reserves reduces flexibility.

If reserves are used for pension management, the modeled results favor concentrating relief in the next five to ten years rather than maximizing gross savings over a longer period. That period corresponds to the projected UAL payment peak and the possible commencement of major capital debt service. It is worth noting that the projected payment peak period will likely be more concentrated in the early years once the FY 2025-26 investment returns of 14.8% work their way into the valuation reports next year. Short-base ADPs and Section 115 smoothing preserve more near-term budgetary capacity than a long-base ADP, although trust smoothing retains greater reversibility until funds are withdrawn.

The analysis also raises whether the current CalPERS Section 115 provider offers sufficient investment flexibility. CalPERS provides two trust options, with expected returns between 4.9% and 5.4%. There are several other providers that provide more investment options, the ability to tailor portfolios, and have demonstrated better historical returns than CalPERS. Any provider review should consider governance, fees, custody, investment policy, risk, liquidity, and transition requirements rather than return alone.

The OPEB position supports a parallel review. A well-funded trust and the actuarial recommendation for reimbursement may allow the Town to reduce or suspend contributions toward the OPEB unfunded liability, but the effect on long-term funding, benefit security, and future contribution volatility should be evaluated. The pension and OPEB decisions should be coordinated because both compete for the same reserves and annual General Fund capacity.

The analysis identifies a possible economic relationship between investing pension-related cash at expected rates above 5 percent and issuing tax-exempt capital debt at rates below 5 percent. This comparison is not risk-free: pension or trust returns and future CalPERS performance are uncertain, while bond debt service is fixed. It is therefore a risk-adjusted allocation question rather than a simple interest-rate arbitrage.

14. New Development and Fiscal Effects

The development model assumes 3,263 residential units through 2040, including 400 accessory dwelling units, or approximately 230 new units annually. Affordable units are assumed to represent approximately 15 percent of non-ADU units. Prior fiscal-impact work indicates that housing growth may have a positive operating effect before incremental capital costs, but infrastructure and service costs may be significant. The analysis therefore tests impact fees and a special tax as methods of converting growth into net fiscal capacity.

The impact-fee estimate is intentionally simplified. It assumes that all units pay the same fee, including rental, ownership, ADU, and deed-restricted affordable units, although actual implementation would differ. The model allocates $108 million of Tier 2, police-building, and interchange local-share costs across 17,063 existing and projected housing units, producing an illustrative $6,329 per unit. An AB 1600 study would be required to establish nexus, proportionality, eligible costs, and the actual fee structure. However, the Town should seek legal advice on how to best manage impact fees on new infill development.

Table 11. Development Assumptions and Fiscal Effects

Development / Revenue Item	Modeled Assumption	Fiscal Character	Key Limitation
Residential growth	3,263 units through 2040, including 400 ADUs; approximately 230 units annually	Driver of recurring and one-time revenues and service costs	Timing, tenure, affordability mix, and absorption are uncertain.
Illustrative impact fee	$6,329 per unit, based on $108M allocated across 17,063 units; 5% annual inflator in revenue model	One-time capital revenue	Not an adopted fee; actual fee requires AB 1600 study and differentiated treatment.

Development / Revenue Item	Modeled Assumption	Fiscal Character	Key Limitation
New-development Mello-Roos tax	$750 per unit annually; 2% inflator	Recurring services and facilities revenue	Requires district and entitlement implementation; dependent on development pace.
Combined new-development revenue	$1.628M in FY 2026-27 rising to $4.320M in FY 2035-36	Combination of one-time and recurring revenue	Potentially large enough to change the forecast, but timing is highly dependent on the building cycle.

Source: NHA Advisors development and revenue analysis using stated growth assumptions.

Table 12. Selected Modeled Annual New-Development Revenues

Fiscal Year	Illustrative Impact Fees	New-Development Special Tax	Combined Revenue
2026-2027	$1.456M	$0.173M	$1.628M
2027-2028	$1.529M	$0.352M	$1.880M
2029-2030	$1.685M	$0.732M	$2.417M
2031-2032	$1.858M	$1.143M	$3.001M
2033-2034	$2.048M	$1.585M	$3.634M
2035-2036	$2.258M	$2.062M	$4.320M

Source: NHA Advisors development revenue model. Amounts are rounded.

The fiscal contribution of development should be evaluated on a net and timing-specific basis. Impact fees may fund eligible capital costs but do not ordinarily support General Fund operating expenses. The new-development annual special tax may support services and facilities, but the tax base builds gradually and depends on construction activity. Under the modeled pace, these revenues are large enough to change the fiscal result and may be a gamechanger. Their volatility, implementation requirements, and exposure to the building cycle make them materially less certain than a broad existing tax base. Section 16 below does include the ongoing long-term net positive fiscal impact cash flows from new development, as shown in the Future Growth and Sustainability Study.

15. Potential Voter-Approved Revenue

A parcel tax or local sales-tax override is identified as the most practical Town-wide revenue structure for addressing the structural deficit. The revised scenarios also rely on a new-development Mello-Roos tax and impact fees. As a result, the policy question is not whether new taxes are required, but which tax bases, rates, and implementation schedules provide sufficient and reasonably stable revenue for the selected capital program. Voting thresholds and initiative requirements are legal matters requiring current legal analysis.

Table 13. Illustrative Town-Wide Parcel-Tax Revenue

Average Annual Tax per Parcel	Approximate Taxable Parcels	Estimated Annual Revenue
$100	11,400	$1,140,000
$200	11,400	$2,280,000
$300	11,400	$3,420,000
$400	11,400	$4,560,000

Source: NHA Advisors parcel-tax sensitivity analysis.

The cash-flow model assumes a flat $200 annual tax on approximately 11,400 parcels, approved no later than November 2028, with full collection beginning in FY 2028-29 and a 2 percent annual inflator. Proceeds are assumed to be available for broadly defined capital purposes. The flat structure is used for modeling simplicity; a more nuanced Mello-Roos structure based on land use may improve equity or feasibility.

The sales-tax sensitivity uses 2025 taxable sales of approximately $138.95 million and a current 9.25 percent combined rate. Under the simplified calculation, generating $1 million annually would require an additional rate of approximately 0.72

percent, while generating $2 million would require approximately 1.44 percent. The 0.72 percent sales tax increase would take the Town to the 10% combined sales tax limit in the State statutes. The 1.44 percent sales tax increase would require special State legislation. Limited statutory capacity, sales leakage, and potential competitive effects are reasons the model does not rely on sales tax. Updated legal, economic, and retail analysis would be required before selecting a measure.

The modeled $200 parcel tax generates approximately $2.28 million initially. Combined with development exactions, it supports Tier 2 through FY 2033-34 but does not prevent deficits from returning in FY 2034-35 and FY 2035-36. It is also substantially below the approximately $7.07 million annual debt service of the full lease revenue bond program. The full program therefore requires a materially larger or broader tax package, project reductions or phasing, additional outside funding, or a combination of these actions.

16. Structural Deficit and Long-Term Cash Flow

The integrated model begins with the structural deficit projected by Raftelis as modified by Town staff, adds the effects of expected June 30, 2025 CalPERS results, elimination of the annual $390,000 Section 115 transfer, Tier 2 spending, interchange predevelopment, lease revenue bond debt service, development revenue, a Town-wide parcel tax, and assumed grants. It also includes a $5.5 million ADP to CalPERS, which has been recommended by staff after reviewing the preliminary options and assessing current pension reserve levels. The revised schedule does not include a separate investment-earnings line for cash balances since the baseline Raftelis structural deficit projection (as revised by staff) already includes investment earnings.

Table 14. Scenario 1 – Base Case Combined Cash Flows and Estimates of Cash Reserves Through FY 2035-2036

Scenario 1	Fiscal Year										
Deficit Estimates	**2025-2026**	**2026-2027**	**2027-2028**	**2028-2029**	**2029-2030**	**2030-2031**	**2031-2032**	**2032-2033**	**2033-2034**	**2034-2035**	**2035-2036**
Structural deficit projected by Raftelis, amended with OPEB savings estimated by Town staff	**100,000**	**(300,000)**	**(1,200,000)**	**(2,300,000)**	**(2,000,000)**	**(2,800,000)**	**(3,500,000)**	**(3,800,000)**	**(4,500,000)**	**(5,300,000)**	**(5,800,000)**
PENSION											
Projected June 30, 2025 UAL adjustment		-	(175,758)	70,882	317,522	564,162	810,800	810,800	810,800	810,800	810,800
Eliminate $390K annual Section 115 transfer		390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000
$5.5M ADP Payment Reduction			1,264,799	1,049,037	1,078,410	1,108,605	787,260	691,176	364,306	249,671	128,331
Cash draw for ADP		(5,500,000)									
CAPITAL PROGRAM											
Tier 2 CIP (5% inflation)		(1,000,000)	(1,050,000)	(1,102,500)	(1,157,625)	(1,215,506)	(1,276,282)	(1,340,096)	(1,407,100)	(1,477,455)	(1,551,328)
Unprogrammed CIP Ongoing Work		(681,250)	(715,313)	(749,157)	(824,114)	(863,398)	(906,568)	(949,975)	(997,474)	(1,045,426)	(1,097,697)
Hwy 17/Hwy 9 Interchange pre-development		(2,700,000)	(2,700,000)								
28% of $118.5 million combined CIP Lease Revenue Bond				(2,179,991)	(2,179,991)	(2,179,991)	(2,179,991)	(2,179,991)	(2,179,991)	(2,179,991)	(2,179,991)
Total cash flow deficit	**100,000**	**(9,791,250)**	**(4,186,272)**	**(4,821,728)**	**(4,375,798)**	**(4,996,128)**	**(5,874,781)**	**(6,378,085)**	**(7,519,459)**	**(8,552,401)**	**(9,299,885)**
NEW REVENUE											
Impact-fee revenue		1,360,839	1,428,881	1,500,325	1,575,342	1,654,109	1,736,814	1,823,655	1,914,837	2,010,579	2,111,108
Positive annual General Fund impact from new development projected by Fiscal Impact Study		86,354	210,107	333,861	457,614	581,367	705,120	828,874	951,789	1,075,541	1,199,254
Town-wide parcel-tax revenue				2,280,000	2,325,600	2,372,112	2,419,554	2,467,945	2,517,304	2,567,650	2,619,003
New development Mello-Roos tax		161,250	328,950	503,294	684,479	872,711	1,068,198	1,271,156	1,481,805	1,700,371	1,927,087
Grant Funding for CIP		500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total new revenue		**2,108,443**	**2,467,938**	**5,117,480**	**5,543,035**	**5,980,299**	**6,429,686**	**6,891,630**	**7,365,735**	**7,854,141**	**8,356,452**
Net deficit including new revenue	**100,000**	**(7,682,807)**	**(1,718,333)**	**295,752**	**1,167,237**	**984,170**	**554,906**	**513,545**	**(153,724)**	**(698,260)**	**(943,433)**
Beginning Committed, Assigned and Unassigned cash	34,412,740	34,512,740	26,829,933	25,111,600	25,407,352	26,574,588	27,558,758	28,113,664	28,627,209	28,473,485	27,775,226
Ending Committed, Assigned and Unassigned cash	**34,512,740**	**26,829,933**	**25,111,600**	**25,407,352**	**26,574,588**	**27,558,758**	**28,113,664**	**28,627,209**	**28,473,485**	**27,775,226**	**26,831,793**

Source: NHA Advisors integrated cash-flow model. Parentheses indicate cash outflows or negative balances; amounts are rounded to the nearest dollar. The revised schedule does not include a separate investment-earnings line.

Table 14 shows that in order to keep the Town's cash balance approximately equal to its level after the ADP CalPERS intervention show in FY 2026-2027, the Town would need to restrict the proposed lease revenue bond to about 28% of the total CIP amount shown in Table 5.

Below is Table 15, showing the effect of COLA reductions by the Town. The percentage of the Table 5 potential CIP that could be funded by a lease revenue bond increases to 49%.

Table 15. Scenario 2 – Base Case Combined Cash Flows and Estimates of Cash Reserves Through FY 2035-2036 (w/COLA Savings)

Scenario 2	Fiscal Year										
Deficit Estimates	**2025-2026**	**2026-2027**	**2027-2028**	**2028-2029**	**2029-2030**	**2030-2031**	**2031-2032**	**2032-2033**	**2033-2034**	**2034-2035**	**2035-2036**
Baseline Structural deficit projected by Raftelis with both OPEB and COLA Reduction Savings Estimated by Town Staff	**100,000**	-	**(900,000)**	**(1,800,000)**	**(1,200,000)**	**(1,700,000)**	**(2,100,000)**	**(2,000,000)**	**(2,400,000)**	**(2,800,000)**	**(3,000,000)**
PENSION											
Projected June 30, 2025 UAL adjustment		-	(175,758)	70,882	317,522	564,162	810,800	810,800	810,800	810,800	810,800
Eliminate $390K annual Section 115 transfer		390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000	390,000
$5.5M ADP Payment Reduction		-	1,264,799	1,049,037	1,078,410	1,108,605	787,260	691,176	364,306	249,671	128,331
Cash draw for ADP		(5,500,000)	-	-	-	-	-	-	-	-	-
CAPITAL PROGRAM											
Tier 2 CIP (5% inflation)		(1,000,000)	(1,050,000)	(1,102,500)	(1,157,625)	(1,215,506)	(1,276,282)	(1,340,096)	(1,407,100)	(1,477,455)	(1,551,328)
Unprogrammed CIP Ongoing Work		(681,250)	(715,313)	(749,157)	(824,114)	(863,398)	(906,568)	(949,975)	(997,474)	(1,045,426)	(1,097,697)
Hwy 17/Hwy 9 Interchange pre-development		(2,700,000)	(2,700,000)								
49% of $118.5 million combined CIP Lease Revenue Bond				(3,814,984)	(3,814,984)	(3,814,984)	(3,814,984)	(3,814,984)	(3,814,984)	(3,814,984)	(3,814,984)
Total cash flow deficit	**100,000**	**(9,491,250)**	**(3,886,272)**	**(5,956,721)**	**(5,210,791)**	**(5,531,121)**	**(6,109,774)**	**(6,213,078)**	**(7,054,452)**	**(7,687,394)**	**(8,134,878)**
NEW REVENUE											
Impact-fee revenue		1,360,839	1,428,881	1,500,325	1,575,342	1,654,109	1,736,814	1,823,655	1,914,837	2,010,579	2,111,108
Positive annual General Fund impact from new development projected by Fiscal Impact Study		86,354	210,107	333,861	457,614	581,367	705,120	828,874	951,789	1,075,541	1,199,254
Town-wide parcel-tax revenue				2,280,000	2,325,600	2,372,112	2,419,554	2,467,945	2,517,304	2,567,650	2,619,003
New development Mello-Roos tax		161,250	328,950	503,294	684,479	872,711	1,068,198	1,271,156	1,481,805	1,700,371	1,927,087
Grant Funding for CIP		500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000	500,000
Total new revenue		**2,108,443**	**2,467,938**	**5,117,480**	**5,543,035**	**5,980,299**	**6,429,686**	**6,891,630**	**7,365,735**	**7,854,141**	**8,356,452**
Net deficit including new revenue	**100,000**	**(7,382,807)**	**(1,418,333)**	**(839,241)**	**332,244**	**449,177**	**319,913**	**678,552**	**311,283**	**166,747**	**221,574**
Beginning Committed, Assigned and Unassigned cash	34,412,740	34,512,740	27,129,933	25,711,600	24,872,359	25,204,602	25,653,779	25,973,692	26,652,244	26,963,527	27,130,274
Ending Committed, Assigned and Unassigned cash	**34,512,740**	**27,129,933**	**25,711,600**	**24,872,359**	**25,204,602**	**25,653,779**	**25,973,692**	**26,652,244**	**26,963,527**	**27,130,274**	**27,351,849**

Table 16 below shows a simple comparison of Scenarios 1 and 2. Under Scenario 1 only 28% of the Table 5 CIP could be funded under a lease revenue bond. Under Scenario 2, with additional reductions to the structural deficit due to a reduction in projected costs of living adjustments and the use of the Other Post Employment Benefits Trust, 49% of the CIP could be funded under a lease revenue bond. Both scenarios, as noted before, include all potential new revenue sources shown in this report.

Table 16. Selected Cash-Flow Sensitivity Results

Scenario	Short Description	Lease Revenue Bond Capacity Percentage
1	Base case, with additional OPEB savings and other adjustments made to baseline model by Town staff	28%
2	Same as Scenario 1, but with additional savings from better management of Internal Service Funds	49%

17. Economic Downturn Sensitivity

For purposes of this report, we have modeled a hypothetical economic downturn. We assumed that the economic downturn increased the baseline structural deficit by $3 million per year for fiscal years 2027-28, 2028-29 and 2029-30. This amounts to an approximate 5% annual reduction in annual General Fund revenues. The net effect of this hypothetical economic downturn is to reduce lease revenue bond funding percentage metric from the 49% shown in Scenario 2 to 35% with the economic downturn assumptions shown above.

18. Integrated Findings and Policy Tradeoffs

The analysis does not identify a single action that resolves all competing objectives. The principal controllable variable is project scope and timing. Pension management, reserve use, debt financing, development exactions, and Town-wide taxes alter the timing and distribution of costs, but none eliminates the need to align the CIP with recurring revenue and minimum liquidity.

Table 17. Principal Policy Decisions and Tradeoffs

Category	Policy Decision	Potential Benefit	Principal Cost / Risk	Key Dependency
CIP	**Add Tier 2 and ongoing Unprogrammed CIP on pay-as-you-go basis**	Advances additional projects without long-term debt.	Annual costs rise with 5% inflation and reduce operating flexibility.	Parcel-tax and development-revenue performance.
	Advance all major projects with lease revenue bonds	Matches cost with useful life and protects construction-period cash.	Approximately $7.85M annual fixed debt service for 30 years.	Affordability, lien-free assets, rates, project costs, and revenue.
	Use cash for interchange plans and permitting	Improves project readiness and supports outside-funding advocacy.	Immediate $5.4M liquidity reduction before construction funding is secured.	Confirmation of regional funding and local-share requirement.

Category	Policy Decision	Potential Benefit	Principal Cost / Risk	Key Dependency
CalPERS	**Make targeted pension ADP**	Directly reduces UAL and near-term payments.	Uses money for CIP and CalPERS reinvestment risk.	Selected bases, reserve floor, and CalPERS performance.
	Use Section 115 trust for smoothing	Maintains greater control and targets peak-year relief.	Does not reduce UAL until transferred; investment risk.	Investment policy, provider, return, and withdrawal plan.
	Reduce or pause OPEB UAL funding	Preserves annual cash and may follow actuarial reimbursement recommendation.	Potentially increases future volatility or reduces funded status.	Updated actuarial projections and funding policy.
	Change OPEB and COLA practices	Reduces expenses, creates capacity for major CIP projects	Changes in personnel policy	Staff and elected willingness to make changes
New Revenue	**Seek Town-wide recurring revenue**	Provides broader capacity for Tier 2 and structural balance.	Voter burden, legal process, political feasibility, and implementation lag.	Measure design, public process, and community support.
	Rely on development exactions	Links growth to capital and service costs.	Revenue timing is volatile and may affect development feasibility.	AB 1600 study, district design, entitlements, and development pace.

Source: Synthesis of the financial analysis and modeled results.

Project prioritization has the greatest leverage. The pension scenarios produce gross reductions ranging from approximately $4.7 million to $10.7 million over multiple years, while the full bond program requires approximately $7.85 million every year. A targeted ADP can make financial sense and can improve near-term capacity, but it is not a gamechanger relative to the size of the CIP. Again, based on our analysis, the Town cannot afford the full CIP lease revenue bond debt service of $7.85 million per year without cost reductions or new revenue sources not reflected in this report.

Liquidity is the second controlling consideration. Scenarios 1 and 2 both show ending cash balances approximately equal to the Town's cash balance after doing the $8+ million ADP CalPERS intervention. If the Town elected to draw down cash reserves in the future, more of the CIP could be funded.

Revenue design is the third controlling consideration. New-development taxes and impact fees are potentially large enough to change the result, but they accumulate over time and are sensitive to the building cycle. Even with a $200/year Town-wide parcel tax the Town cannot fully fund the Table 5 CIP through a lease revenue bond. The remaining choices are to increase or broaden recurring taxes, secure materially more external funding, reduce or phase projects, or accept a greater reserve draw and lower financial flexibility.

19. Preliminary Conclusions

Under the assumptions evaluated, existing revenues and reserves are not sufficient to fund the full expanded capital program, eliminate the structural deficit, and maintain positive aggregate cash through FY 2035-36. Both scenarios rely on new taxes or exactions.

Borrowing reduces the immediate reserve use associated with the police building, Town Hall, and part of the interchange contribution, but it creates an estimated $7.85 million of annual debt service (for full CIP funding) for 30 years. Debt therefore addresses timing rather than affordability. The capacity to issue bonds depends on recurring tax revenue, project scope, reserve policy, and the Town's tolerance for long-term General Fund commitments.

Pension cost management can improve the financial position, particularly when savings are concentrated during the next five to ten years. A targeted ADP can make financial sense, but its benefit is smaller than the annual cost of the expanded CIP and must be weighed against the immediate loss of liquidity. Future CalPERS performance may have a larger fiscal effect than the ADP, but its volatility requires conservative planning. OPEB funding may provide additional near-term flexibility because of the plan's funded status and recommended trust reimbursement. The $5.5 million ADP shown in the cash flows results in significant operating costs reductions through 2036.

New development is expected to contribute positive revenue under the modeled assumptions. Impact fees and a new-development special tax could materially align growth with infrastructure and municipal-service requirements and may be a gamechanger in the long run for providing additional funding capacity for the Town's potential CIP.

The analysis indicates a fundamental need for the Town to prioritize or phase projects and to establish a recurring tax strategy. The estimated new revenue sources more than solve for the projected structural deficit. However, at best only about 30% of the potential CIP can be funded, in addition to the pay go Tier 2 CIP and the ongoing Unprogrammed CIP.

20. Recommended Next Steps

The following work is required before final implementation decisions. The priorities are to refine the capital program, establish a minimum reserve framework, test the stability and legal feasibility of new taxes, and update the uncertain external assumptions that could materially change the result.

1. Update the scope, cost, escalation, and schedule for Tier 2, the police building, and Town Hall, and identify the projects that can be phased or deferred.
2. Resolve the Highway 17/Highway 9 interchange local-share assumption by modeling at least 10 percent and 20 percent Town contributions and confirming the status of VTA, State, and federal funding.
3. Confirm the $5.4 million predevelopment scope, schedule, and decision points before committing cash.
4. Complete an asset analysis for lease revenue bond security and prepare a debt-capacity and affordability framework that includes reserve requirements and overlapping obligations.
5. Update the long-range General Fund forecast and reconcile the structural-deficit baseline with the new June 30, 2025 CalPERS schedule. Consider also doing this for the expected June 30, 2026 CalPERS schedule.
6. Perform sensitivity analysis for construction inflation, financing rates, development pace, grant shortfalls, delayed ballot implementation, and lower investment earnings.
7. Establish minimum operating, stabilization, and emergency reserve targets and identify which committed or assigned balances could be reallocated under applicable law and policy.
8. Obtain updated CalPERS and OPEB actuarial information and compare targeted ADPs, trust smoothing, and OPEB contribution changes within the reserve framework.
9. Review the Section 115 trust investment structure, provider alternatives, fees, governance, and risk-adjusted return objectives.
10. Conduct an AB 1600 impact-fee study and separately quantify incremental capital and operating costs attributable to development.
11. Evaluate the legal and financial structure of a new-development Mello-Roos services and facilities tax.
12. Evaluate Town-wide parcel-tax, Mello-Roos, sales-tax, and other recurring-revenue alternatives, including legal thresholds, distributional effects, revenue stability, public process, and community support.
13. Prepare staged implementation schedules showing the financial effect of advancing, deferring, or reducing each major project.
14. Develop an integrated policy decision calendar that aligns project approvals, pension and OPEB actions, financing preparation, outside-funding applications, and any ballot process.

The next phase should include an AB 1600 impact-fee study, analysis of a special Mello-Roos tax on new development, evaluation of Town-wide tax structures, project prioritization, a targeted CalPERS intervention, and cash funding for interchange design and permitting accompanied by expanded regional and federal funding advocacy. These actions remain subjects for further analysis and policy direction rather than final recommendations.

Appendix A. Major Assumptions and Qualifications

The following schedule summarizes the major assumptions and qualifications used in the report. It is intended to distinguish documented balances and actuarial results from preliminary estimates, policy assumptions, and sensitivity variables.

Table A-1. Major Assumptions and Qualifications

Topic	Major Assumption / Qualification
ALM scope	CIP, projects outside the CIP, CalPERS and OPEB, reserves, debt, development, taxes, and the structural deficit are evaluated as one financial system.
Existing CIP	Approximately $4+ million annually through FY 2029-30; road-focused; General Fund contribution eliminated for FY 2025-26.
Potential projects	Tier 2 $20 million; interchange $180+ million; police building $70 million; Town Hall $25+ million; Tier 3 excluded.
Tier 2 cash flow	$2 million initial annual funding concept with 5% inflation over ten years; revised integrated schedule includes a net $1 million amount in FY 2026-27 and rising costs thereafter.
Interchange local funding	A 20% share is described as a possible practical minimum, while the model uses $18 million or 10% plus a$5.4 million cashcontribution for design.

Topic	Major Assumption / Qualification
Ongoing Unprogrammed CIP	Ranges from $2.7 million to $4.4 million per year. Funded on a pay-go basis
One time Unprogrammed CIP	$10.9 million. Potentially funded through lease revenue bond
Debt assumptions	$118.5 million project costs; 1% issuance expense; $119,7 million financed; 5%; 30 years; approximately $7.785million annual debt service.
Reserves	$34.413 million aggregate starting cash across restricted, nonspendable, committed, assigned, and unassigned categories; legal and policy availability differs.
OPEB	More than 75% funded; $30 million+ assets; $38 million+ liability; FY 2026-27 ADC approximately $1.732 million; recommended reimbursement approximately $705,000.
CalPERS baseline	$67.2 million UAL at June 30, 2024; expected $60.1 million at June 30, 2025.
CalPERS performance	Investment returns can affect the UAL by more than the modeled ADP benefit; future performance is volatile and not treated as a dependable balancing source.
Pension interventions	$4.2 million ADP or trust alternatives and an approximately $8.2 million larger ADP; results depend on selected bases, returns, and timing.
ADP conclusion	A targeted ADP can make financial sense and improve near-term cash flow, but it is not a gamechanger relative to the annualized cost of the expanded CIP. $5.5 million ADP is assumed.
Development	3,263 units through 2040 including 400 ADUs; approximately 230 units annually; development pace and mix are uncertain.
Impact fee	$6,329 illustrative per-unit allocation with 5% inflation; an AB 1600 study and actual nexus analysis are required.
New-development special tax	$750 per unit with a 2% inflator; potentially material but dependent on development timing and implementation.
Town-wide parcel tax	$200 per parcel on approximately 11,400 parcels with 2% inflator beginning fiscal year 2028-29; illustrative and not adopted.
Tax requirement	Every modeled scenario relies on a new tax or exaction; existing revenues alone do not eliminate the structural deficit.
Scenario 1	Base case with all new revenue sources – shows a capacity to fund 8% of the lease revenue bond
Scenario 2	Includes additional revenue from the use of the OPEB Trust, and a reduction in projected costs of living adjustments
Integrated cash balance	Ending cash is approximately $26 million in FY 2035-36 for Scenario 1. This cash balance target is a constraint in the modeling such that the % of CIP funded through a lease revenue bond is the key variable
Primary controllable driver	The size and timing of the CIP have greater leverage than pension intervention.
Primary uncertain drivers	Future CalPERS performance and new development activity can materially change the result but are highly uncertain.
Next analytical steps	Refine projects, outside funding, reserve targets, CalPERS/OPEB information, development exactions, tax structures, and staged implementation schedules.

Source: NHA Advisors asset liability management analysis using Town-provided financial, capital, actuarial, and development information.

Appendix B. Defined Terms

ADP: Additional discretionary payment made directly to CalPERS to reduce selected amortization bases and future required payments.

ALM: Asset liability management; the integrated evaluation of financial assets, reserves, liabilities, capital commitments, debt, and revenues.

CIP: Capital Improvement Program; the Town's planned capital projects and funding schedule.

Lease revenue bonds: Obligations commonly supported by lease payments on public assets and annual appropriations, subject to final legal and financing structure.

OPEB: Other postemployment benefits, principally retiree healthcare benefits in this analysis.

Unprogrammed CIP: CIP implied by studies or engineering work in CIP documents, but for which cost estimates are not actually shown.

Section 115 trust: A tax-exempt trust restricted to eligible pension and/or OPEB purposes that can hold and invest assets outside the pension system until used.

UAL / UAAL: Unfunded accrued actuarial liability; the portion of actuarial liabilities not supported by actuarial assets. The OPEB table uses UAAL, while the pension analysis uses UAL.

VTA: Santa Clara Valley Transportation Authority.