TOWN OF LOS GATOS

FINANCE COMMISSION REPORT

MEETING DATE: 11/09/2026

ITEM NO: 6

DATE: November 9, 2026

TO: Finance Commission

FROM: Kristina Alfaro, Administrative Services Director

SUBJECT: Receive and Forward the Fiscal Condition Analysis Report, the Future Growth and Sustainability Study Fiscal Impact Analysis, and the Asset Liability Management Study to the Town Council; and Recommend an Additional Discretionary Payment to CalPERS

RECOMMENDATION:

1. Receive the Fiscal Condition Analysis Report, Future Growth and Sustainability Study Fiscal Impact Analysis, and Asset Liability Management Study, and forward the reports to the Town Council.

2. Recommend that the Town Council authorize a one-time Additional Discretionary Payment (ADP) to CalPERS of $5.5 million, funded with approximately $4.2 million from the Section 115 Pension Trust and $1.3 million from the Pension/OPEB Committed Reserve, subject to confirmation of available balances, appropriate Council authorization, and final identification of the CalPERS amortization bases to be paid down.

3. Recommend that the Town Council redirect the existing $390,000 annual Pension Trust contribution to an annual direct ADP to CalPERS, subject to applicable budget appropriations and adopted Town financial policies.

BACKGROUND:

In December 2025, the Town began work with NHA Advisors with subcontract 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

PREPARED BY: Kristina Alfaro
Administrative Services Director

Reviewed by: Town Manager

new units designated as affordable. Both studies will support the future Asset, Liability Management (ALM) study.

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 the methodology for the study focused on the fiscal impact of proposed and planned growth based on the Housing Element. Memos were posted to the Town's Finance website on March 18, 2026, and were brought to the Finance Commission on April 13, 2026.

On April 21, 2026, the memos were reviewed by the Town Council, and recommendations were provided on scenarios to inform the Asset Liability Management Study.

DISCUSSION:

On August 10, 2026, the final reports for the three studies were presented, and the Finance Commission requested the following updates to the ALM study. The Asset Liability Management Study incorporates information from the Fiscal Condition Analysis, Future Growth and Sustainability Study, Fiscal Impact Analysis, and Council recommendations and was submitted to the Finance Commission for review. The Commission received the three fiscal studies but requested additional time to review.

The Commission identified key issues needing clarification that the updated ALM report addresses.

Should the Finance Commission request additional analysis, the agreement with NHA staff will need to be amended and increased. The reports included in this Finance Commission meeting, and one additional Council meeting, are the last remaining contract items.

Staff is moving forward with a long-standing recommendation from the Commission for an ADP to CalPERS. The amount being recommended is $5.5 million and is a combination of an estimated $4.2 million balance in the 115 Pension Trust and an additional $1.3 million from the Pension/OPEB Committed Reserve. Lastly, staff is also asking the Commission to consider a recommendation to convert the annual $390,000 Pension Trust payment into an annual ADP to CalPERS.

In addition, the improvement in the baseline forecast is driven by the use of Other Post Employment Benefits (OPEB) Trust and a reduction in assumed COLAs consistent with historical practices versus recent history. Staff estimated these costs. Below is a table that shows the

value of each change separately. Please note that the OPEB numbers will not tie one-for-one with the actuarial valuation chart in the ALM. This is because, as part of our effort to become more familiar with our new model, we used it to update both new baseline scenarios. The model, as it is currently set up, does not allow us to change just one account; we must apply an escalator to an entire category. This is why you will see some years match up and some not. We will be working with Raftelis to update the model to ensure we can do both percentages across a category and line-item changes when needed.

CATEGORY	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Original Raftelis Baseline Forecast	**0.1**	**(0.5)**	**(1.5)**	**(2.8)**	**(2.6)**	**(3.5)**	**(4.4)**	**(4.9)**	**(5.8)**	**(6.8)**	**(7.5)**
Use of OPEB Trust (Revenue Increase)	$ -	$ (0.5)	$ (0.3)	$ (0.5)	$ (0.6)	$ (0.8)	$ (0.9)	$ (1.1)	$ (1.3)	$ (1.5)	$ (1.6)
Reduction of COLAs (Expenditure Decrease)	$ -	$ -	$ (0.3)	$ (0.5)	$ (0.8)	$ (1.0)	$ (1.4)	$ (1.8)	$ (2.1)	$ (2.5)	$ (2.9)
New Baseline Forecast Scnario 2	**$ 0.1**	**$ -**	**$ (0.9)**	**$ (1.8)**	**$ (1.2)**	**$ (1.7)**	**$ (2.1)**	**$ (2.0)**	**$ (2.4)**	**$ (2.8)**	**$ (3.0)**

FY 2025-26 Raftelis Model Reconciliation

The Raftelis model forecasted ending FY 2025-26 with $60.5M in revenue and $60.5M in expenditures. Expenditures have materialized in line with the forecast at $60.8M. Revenue materialized $6.3M higher. This was driven by revenue other sources exceeding estimates by $4M, higher-than-estimated business license tax and transfers of $0.3M each, and other sources estimated coming in $2M higher, the exact cause is hard to determine as the forecast is provided in the model at only the category level, but based on the accounts included in this category, it is likely due to pass thru revenues.

CONCLUSION:

As we near the conclusion of NHA's work with Raftelis and Willdan, the Town has gained the benefits of an independent review of forecasted numbers. This has allowed staff to consider some potential different approaches to forecasting and solidify others. As we approach the mid-year financial report and FY 2027-28 Proposed Budget, staff will continue to refine the forecast to produce forecasts that align with historical results. The Willdan study allowed staff to gain development revenue numbers to include in the future, a missing component of the current forecast. Lastly, the ALM study showed that the Town's operating budget is balanced and fiscally sound. Deficits materialize when any capital funding is introduced as illustrated below.

After the following adjustments are made to the Final ALM Study, Scenario 2: decrease projected COLAs, use of OPEB funds to offset retiree medical costs, add in additional revenue for potential new developments, and remove all Capital projects funding, including the $1M that was originally in the Rafelis model. Staff concludes that the Town's operating budget is

fiscally sound and balanced in all 10 years of the forecast. This analysis does not consider the planned use of reserves in FY 26/27 as a structural deficit.

	FISCAL YEAR										
	25/26	**26/27**	**27/28**	**28/29**	**29/30**	**30/31**	**31/32**	**32/33**	**33/34**	**34/35**	**35/36**
Baseline Structural deficit projected by Raftelis with both OPEB and COLA Reduction Savings Estimated by Town Staff	**$0.1**	**$ -**	**$(0.9)**	**$(1.8)**	**$ (1.2)**	**$(1.7)**	**$ (2.1)**	**$(2.0)**	**$(2.4)**	**$(2.8)**	**$ (3.0)**
PENSION											
Projected June 30, 2025 UAL adjustment	**$-**	**$-**	**$(0.2)**	**$0.1**	**$ 0.3**	**$ 0.6**	**$ 0.8**	**$ 0.8**	**$ 0.8**	**$0.8**	**$ 0.8**
$5.5M ADP Payment Reduction	**$-**	**$-**	**$ 1.3**	**$1.0**	**$ 1.1**	**$ 1.1**	**$ 0.8**	**$ 0.7**	**$ 0.4**	**$0.2**	**$ 0.1**
Cash draw for ADP	**$-**	**$(5.5)**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**	**$-**
CAPITAL PROGRAM											
Remove $1M CIP Funding is Baseline	**$-**	**$ 1.0**	**$ 1.0**	**$1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$ 1.0**	**$1.0**	**$ 1.0**
NEW REVENUE											
Impact-fee revenue (projected from new development)	**$-**	**$ 1.4**	**$ 1.4**	**$1.5**	**$ 1.6**	**$ 1.7**	**$ 1.7**	**$ 1.8**	**$ 1.9**	**$2.0**	**$ 2.1**
Net deficit including new revenue	**$0.1**	**$ (3.1)**	**$ 2.6**	**$ 1.8**	**$ 2.8**	**$ 2.7**	**$ 2.2**	**$ 2.3**	**$ 1.7**	**$ 1.2**	**$ 1.0**

The introduction of capital funding at any level results in modeled deficits even with additional impact fee revenues.

Attachments:
1. Fiscal Condition Analysis Report
2. Future Growth And Sustainability Study Fiscal Impact Analysis
3. Asset and Liability Management Study
4. Commissioner Comments