TOWN OF LOS GATOS

FINANCE COMMISSION REPORT

MEETING DATE: 11/09/2026

ITEM NO: 7

DATE: October 29, 2026

TO: Finance Commission

FROM: Kristina Alfaro, Administrative Services Director

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

RECOMMENDATION:

Receive and forward to the Town Council the Fiscal Year 2026-27 First Quarter Financial Report and the preliminary unaudited Fiscal Year 2025-26 Year-End Results.

BACKGROUND:

As part of the Town's new ongoing monthly and quarterly financial reporting process, staff is 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:

Reports Provided

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

PREPARED BY: Kristina Alfaro
Administrative Services Director

Reviewed by: Town Manager

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. **By Fund and Department**
   Departmental expenditures by the specific fund supporting each program or operational area.
4. **By Fund, Department and Expense/Revenue Category**
   A detailed breakdown that ties each department's budget activity to the relevant fund and categorizes expenditures and revenues for more granular analysis.
5. **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.
6. **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.
7. **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.

FISCAL IMPACT:

There is no direct fiscal impact associated with receiving and filing the first quarter report.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:
1. Expenditure Report by Fund
2. Expenditure Report by Fund and Expense
3. Expenditure Report by Fund and Department

4. Expenditure Report by Fund, Department and Expenditure Category
5. Revenue Report by Fund
6. Revenue Report by Fund and Revenue Category
7. Revenue Report by Fund and Department
8. Revenue Report by Fund, Department and Revenue Category
9. FY 26-27 First Quarter Report
10. Historical first quarter Reports
11. FY 2025-26 Year-end Expenditures by Fund Report
12. FY 2025-26 Year-end Revenues by Fund Report
13. FY 2025-26 Year-end General Fund Expenditures by Fund and Category
14. FY 2025-26 Year-end General Fund Revenues by Fund and Category