



AS OF 1/30/2026

# Los Gatos

Baseline Forecast Model and Assumptions

Finance Commission

February 2, 2026



# Agenda

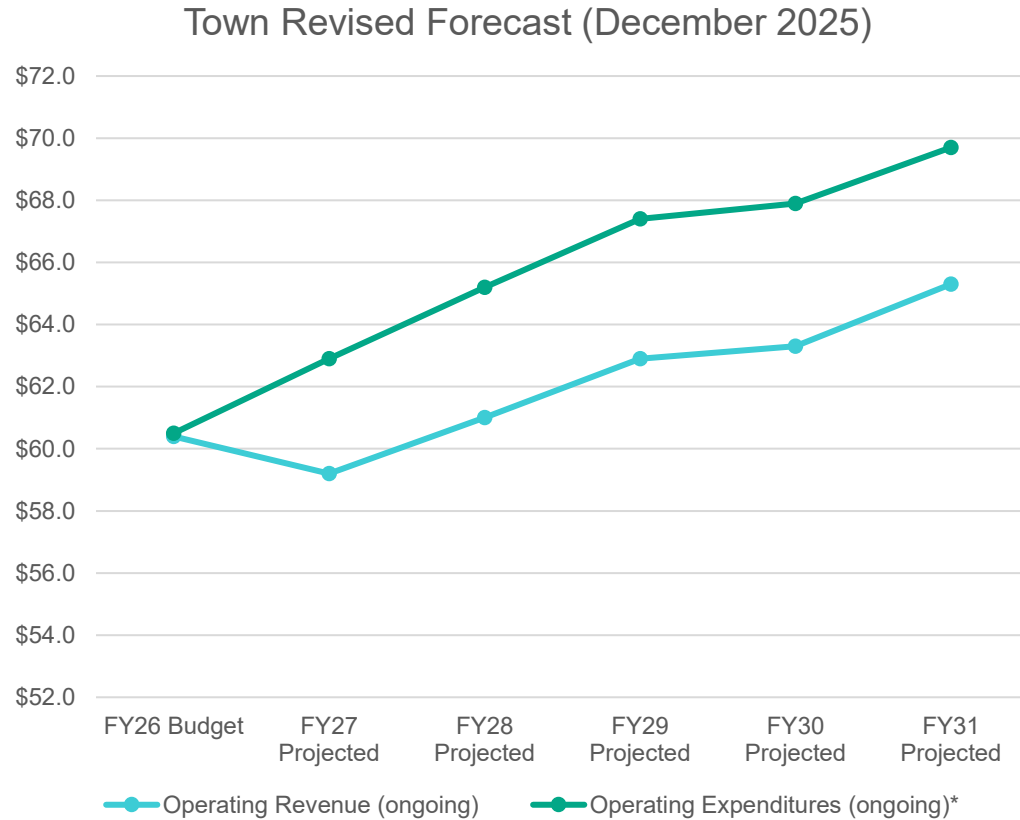
1. Project Overview
2. Financial Context
3. Initial Baseline Forecast  
Assumptions
4. Preliminary Outlook
5. Next Steps

# Project Timeline

TASK	TIMELINE
Project Kick-Off	November 2025
Data/Document Review and Baseline Model Setup	December 2025
Assess Financial Condition and Develop Baseline Projection	January 2026
Present Assumptions and Projections to Finance Commission	February 2, 2026
Present Assumptions and Projections to Town Council	February 3, 2026
Finalize Dashboards and Train Staff on Model Use	March 2026
Prepare Draft/Final Report	March/April 2026

# Financial Context






# Projected Structural Deficit



## Drivers

- Sales tax elasticity
- Revenue returning to normal growth
- Labor market competitiveness
- Growing benefit costs, including pension and retiree healthcare
- Some non-personnel expenditures outpacing inflationary cost

# General Fund (GF) - Primary Revenues

Source	Percent of Total GF Revenue (%) <sup>1</sup>	Underlying Economic Factors and Trends	Predictability
Property Tax <sup>2</sup>	45%	<ul style="list-style-type: none"> <li>Regaining population from pre-Covid</li> <li>Increasing valuation, capped by Prop 13</li> <li>Steady new construction with growing pipeline</li> <li>Mixed real estate indicators for home turnover</li> </ul>	
Sales and Use Tax <sup>3</sup>	13%	<ul style="list-style-type: none"> <li>Consumer spending habits, inflation</li> <li>Consultant assisting with proprietary data to help forecast</li> <li>Modest growth dependent on industry, high elasticity</li> <li>Transportation sector impact with electric vehicles and fewer dealerships</li> <li>Potential for higher leakage as a bedroom community</li> </ul>	
Licenses and Permits	11%	<ul style="list-style-type: none"> <li>Permit volume/trends and recent fee schedule update</li> <li>Significant adjustment to base budget with reclassification of solid waste revenue</li> </ul>	
Town Services	10%	<ul style="list-style-type: none"> <li>Customer/resident volume, difficult to predict with modest population growth</li> <li>Future revenue growth dependent on policy changes for cost recovery and fee schedules</li> </ul>	
Business License and Transit Occupancy Tax	8%	<ul style="list-style-type: none"> <li>Linked to regional inflation and principal employers (existing base)</li> <li>Hotel capacity and occupancy rates</li> <li>Commercial development (permits)</li> </ul>	

<sup>1</sup> Based on FY 2025-26 Budget of \$59.8 million

<sup>2</sup> Includes Vehicle License Fee (VLF) backfill property tax revenue, approximately 9% of total GF revenue

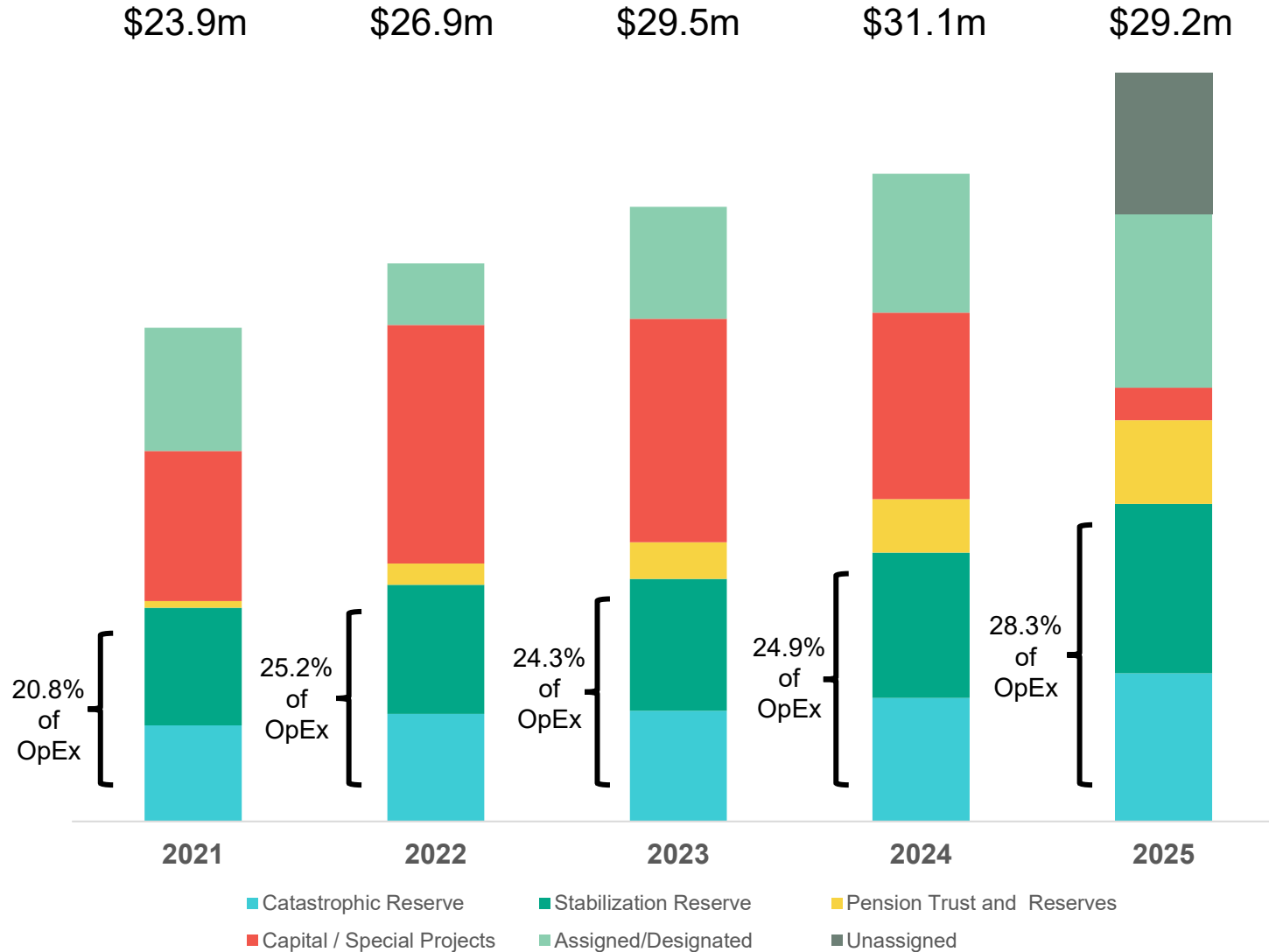
<sup>3</sup> Includes Measure G District Sales Tax revenue, approximately 2% of GF revenue

# General Fund (GF) – Primary Expenditures

Source	Percent of Total GF Revenue (%) <sup>1</sup>	Drivers	Recent Trends
<b>Salaries and Benefits</b>	66%	<ul style="list-style-type: none"> <li>• Negotiated salary increases</li> <li>• CalPERS required contribution and unfunded accrued liability (UAL)</li> <li>• Medical benefit rates</li> <li>• Growing number of retirees</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal position growth</li> <li>• Stabilizing staffing levels</li> <li>• Wage growth to match inflationary cost of living</li> <li>• Growing pension allocation</li> <li>• Increasing medical costs</li> </ul>
<b>Nonpersonnel Expenditures</b>	21%	<ul style="list-style-type: none"> <li>• Contracts / purchased services</li> <li>• Materials and supplies</li> <li>• Utilities</li> <li>• Retiree healthcare</li> </ul>	<ul style="list-style-type: none"> <li>• Vendors transitioning to subscription based model, especially public safety equipment</li> <li>• Increased reliance on outside legal counsel, consulting, and other technical expertise</li> <li>• Water and energy costs trending above inflation</li> </ul>
<b>Internal Service Charges</b>	8%	<ul style="list-style-type: none"> <li>• Workers Compensation and General Liability insurance pools</li> <li>• Ongoing facility maintenance needs</li> <li>• Technology and vehicle replacement schedules</li> </ul>	<ul style="list-style-type: none"> <li>• Aging facilities/infrastructure, leads to more reactive maintenance</li> <li>• Deferred capital investment to balance budget</li> <li>• Changing JPA for insurance to try and mitigate cost increases</li> <li>• Safety and risk management related to adequate staffing levels for service delivery</li> <li>• Recent technology investments</li> </ul>

<sup>1</sup> Based on FY 2025-26 Budget of \$60.4 million

# General Fund Balance



- Steady growth with strong financial policies in place that exceed GFOA minimums
- Growth supported by conservative revenue forecasting practices, adding to fund balance
- Unexpected (external) change across the operating budget could quickly absorb reserve balances
- Fine-tuning the revenue forecast may tighten the ability to add significant savings year-over-year



# Forecast Model Assumptions

# Guiding Principles

- Baseline model is “status quo” – what will it cost to provide the same level of service over the next ten years as it does today?
- Scenarios will provide basis for evaluating key policy decisions
- Fine-tune revenue assumptions to bring in-line with actual performance, intentionally conservative estimates for revenues with greater volatility
- Appropriately capture asset management life cycle needs
  - › IT and Fleet replacement, Facilities maintenance

# Revenue Assumptions



# Revenue Assumptions: Property Tax

## Historical Trend

FY	Actual	% Change
2019	\$13,636,099	N/A
2020	\$14,454,513	6.0%
2021	\$15,826,162	9.5%
2022	\$16,899,618	6.8%
2023	\$18,187,388	7.6%
2024	\$19,321,147	6.2%
2025	\$20,157,765	4.3%
2026 Budget	\$21,450,971	N/A
Average Change		6.7%

## Predictability:

- Historical average budget-to-actual variance of 5.6%
- Consistent growth year-over-year
- Difficulty predicting turnover
- ERAF risk - \$3.2 million of base (most recent County data)



## Relevant Data Sources for Projecting Estimates:

- Property valuation history (Santa Clara County)
- Housing Element Plan
- Home sales and median sale price
- Home ownership demographics (US Census)

## Raftelis Preliminary Assumption: 5.1% (blended)

- Based on overall valuation growth within Prop 13 limits
- Anticipated new development driving new construction
- Historical turnover data along with real estate market indicators

# Revenue Assumptions: VLF Backfill Property Tax

## Historical Trend

FY	Actual	% Change
2019	\$3,685,247	N/A
2020	\$3,875,914	5.2%
2021	\$4,052,672	4.6%
2022	\$4,229,462	4.4%
2023	\$4,555,700	7.7%
2024	\$4,906,019	7.7%
2025	\$5,109,100	4.1%
2026 Budget	\$5,377,328	N/A
Average Change		5.6%

## Predictability:

- Average budget-to-actual variance of 3.4%
- Consistent growth year-over-year
- Subject to state legislative changes



## Relevant Data Sources for Projecting Estimates:

- Historical revenue collection (Town)
- Property valuation history (Santa Clara County)
- Housing Element Plan

**Raftelis Preliminary Assumption: 5.2%**

- Based on historical growth patterns
- Assumes no change in state allocation methodology

# Revenue Assumptions: Sales and Use Tax

## Historical Trend

FY	Actual	% Change
2019	\$8,158,152	N/A
2020	\$7,531,425	(7.7%)
2021	\$6,794,218	(9.8%)
2022	\$7,177,597	5.6%
2023	\$7,507,068	4.6%
2024	\$6,795,037	(9.5%)
2025	\$6,992,336	2.9%
2026 Budget	\$6,639,081	N/A
Average Change		(2.3%)

## Predictability:

- Average budget-to-actual variance of (5.7%)
- High elasticity and volatility by industry
- Sensitive to local, commercial economic changes
- Impact of transportation industry (including gas tax)



## Relevant Data Sources for Projecting Estimates:

- Consultant estimates
- Revenue history
- Consumer spending metrics - GDP, employment, median household income

## Raftelis Preliminary Assumption:

**Weighted Avg 2.0%**

- Reviewed distribution of sales tax generated by industry/type
- Adjusted 2026 base budget with most recent confidential economic data
- Determined conservative growth assumption based on recent consultant report for each industry, then weighted based on distribution

# Revenue Assumptions: Licenses and Permits

## Historical Trend

FY	Actual	% Change
2019	\$3,044,490	N/A
2020	\$2,673,706	(12.2%)
2021	\$3,003,475	12.3%
2022	\$4,814,650	60.3%
2023	\$3,283,848	(31.8%)
2024	\$3,993,247	21.6%
2025	\$6,681,657	67.3%
2026 Budget	\$6,322,712	N/A
Average Change		19.6%

## Predictability:

- Average budget-to-actual variance of 18.7%
- Volatile through the pandemic
- 2026 base budget is reflective of recent adjustments and fee changes



## Relevant Data Sources for Projecting Estimates:

- Fee schedule and revenue history (Town)
- Residential and commercial permit data
- Solid Waste JPA revenue (recent valuation change)

## Raftelis Preliminary Assumption:

**1.2%**

- Assumes ongoing solid waste revenue (now reflected in the base) remains flat year-over-year
- Increase driven primarily by Community Development growth, assumed increase of 1.8%

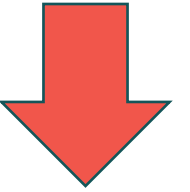
# Revenue Assumptions: Town Services

## Historical Trend

FY	Actual	% Change
2019	\$4,440,606	N/A
2020	\$4,373,603	(1.5%)
2021	\$4,778,695	9.3%
2022	\$5,310,271	11.1%
2023	\$4,631,325	(12.8%)
2024	\$5,913,520	27.7%
2025	\$5,405,507	8.6%
2026 Budget	\$5,736,735	N/A
Average Change		4.2%

## Predictability:

- Average budget-to-actual variance of 14.9%
- High volatility driven by volume of activity from year-to-year
- Base budget is in-line with recent actuals (post-COVID)



## Relevant Data Sources for Projecting Estimates:

- Revenue history by department (Town)
- Permit Data (volume and valuation)

## Raftelis Preliminary Assumption:

**1.1%**

- Weighted assumptions for each department:
  - CDD (40% of total) – declining growth 2% based on past two years of permit trends (post-COVID)
  - Police (24% of total) – increasing growth of 7%
  - Parks and Public Works (31% of total) – flat 0%



# Revenue Assumptions: Business License Tax

## Historical Trend

FY	Actual	% Change
2019	\$1,526,894	N/A
2020	\$1,357,080	(11.1%)
2021	\$1,386,943	2.2%
2022	\$1,481,667	6.8%
2023	\$2,361,862	59.4%
2024	\$1,519,960	(35.6%)
2025	\$2,975,721	95.8%
2026 Budget	\$2,493,992	N/A
Average Change		19.6%

## Predictability:

- Average budget-to-actual variance of 10.0%
- Part of volatility attributable to audit and adjustments in prior years
- Core businesses have more stable growth



## Relevant Data Sources for Projecting Estimates:

- HdL Estimates – existing base growth (more predictable)
- Historical collections (higher volatility, influenced by audits)
- Regional CPI-U (Bureau of Labor Statistics)
- Commercial permit data

## Raftelis Preliminary Assumption:

**1.5%**

- Normalize recent adjustments in 2024-2025
- Leverage HdL estimates – moderate growth assumption is 1.5%
- Consumer Price Index drives underlying growth

# Revenue Assumptions: Transient Occupancy Tax

## Historical Trend

FY	Actual	% Change
2019	\$2,692,043	N/A
2020	\$1,869,685	(30.5%)
2021	\$1,044,820	(44.1%)
2022	\$1,895,064	81.4%
2023	\$2,228,190	17.6%
2024	\$2,367,653	6.3%
2025	\$2,417,630	2.1%
2026 Budget	\$2,422,390	N/A
Average Change		5.4%

## Predictability:

- Average budget-to-actual variance of 10.4%
- Post-Covid relatively predictable
- Changes in local economy impact overall growth



## Relevant Data Sources for Projecting Estimates:

- Number of hotels
- Occupancy rates and pricing
- Revenue collection history (Town)

## Raftelis Preliminary Assumption:

**3.0%**

- Adjusted for recent change in tax base (flat between 2025-2026)
- Considers historical collections, occupancy, and pricing
- Most recent two-year growth rate given pandemic volatility

# Revenue Assumptions: Interest Income

## Historical Trend

FY	Actual*	% Change
2019	\$1,445,640	N/A
2020	\$2,238,102	54.8%
2021	\$58,250	(97.4%)
2022	-\$1,404,526	(2511.2%)
2023	\$584,171	(141.6%)
2024	\$2,597,723	344.7%
2025	\$2,935,466	13.0%
2026 Budget	\$1,567,774	N/A
Average Change		(389.6)%

\*Includes mark-to-market adjustment

## Predictability:

- Significant budget-to-actual variance in recent years
- Required mark-to-market accounting adjustments (non-cash)
- Impact of pandemic and recent rate cuts to curb inflation



## Relevant Data Sources for Projecting Estimates:

- Average cash-on-hand and investment balances
- Federal Reserve activity
- State Treasurers Office performance for LAIF

## Raftelis Preliminary Assumption: 2.6% (weighted)

- Removes non-cash adjustments
- Applies anticipated earnings between investments and cash
- Weighted based on distribution of funds, investment amount reduced over time for the impact of structural deficit

# Expenditure Assumptions



# Expenditure Assumptions: Wages

## Historical Trend

FY	Actual	% Change
2019	\$17,930,591	N/A
2020	\$18,884,569	5.3%
2021	\$19,869,768	5.2%
2022	\$19,440,301	-2.2%
2023	\$21,385,026	10.0%
2024	\$22,529,072	5.3%
2025	\$23,146,975	2.7%
2026 Budget	\$23,840,242	N/A
Average Change		4.4%

## Assessment:

- Average budget-to-actual variance of 3.8% (under budget)
- Minimal position growth
- Recent vacancy factor introduced, need to monitor as staffing stabilizes

## Relevant Data Sources for Projecting Estimates:

- Actual expenditure history (Town)
- Salary schedules and labor agreements (Town)
- Historical position growth to meet existing service profile

## Raftelis Preliminary Assumption:

**Varies**

- No salary savings assumption, based on actual rather than budgeted costs
- Overtime budget remains flat based on recent activity and prior base budget adjustments
- Contractual wage growth by bargaining unit with assumed cost-of-living inflationary growth after 2027

# Expenditure Assumptions: CalPERs

## Historical Trend

FY	Actual	% Change
2019	\$5,282,681	N/A
2020	\$6,059,646	14.7%
2021	\$6,374,119	5.2%
2022	\$6,531,958	2.5%
2023	\$7,091,215	8.6%
2024	\$7,431,198	4.8%
2025	\$8,220,124	10.6%
2026 Budget	\$9,907,119	N/A
Average Change		7.7%

## Assessment:

- Average budget-to-actual variance of 9.3% (under budget)
- Rely on Town's actuarial analysis for required contribution
- Review covered payroll assumptions

## Relevant Data Sources for Projecting Estimates:

- Annual actuarial valuation reports (Misc and Public Safety)
- Covered payroll - salary schedules and labor agreements
- Pre-established reserve policy – Pension Trust

## Raftelis Preliminary Assumption:

**Varies**

- Covered payroll estimates for Misc and Safety with valuation report blended contribution rates (includes UAL amortization)
- Assumes inflationary growth in covered payroll similar to wages
- Average growth of 3.1% in contributions over the next 10yrs, ranging from 0% to 7% any given year

# Expenditure Assumptions: Other Benefits

## Historical Trend

FY	Actual	% Change
2019	\$3,578,363	N/A
2020	\$3,618,950	1.1%
2021	\$3,710,338	2.5%
2022	\$3,679,378	-0.8%
2023	\$3,829,826	4.1%
2024	\$4,274,670	11.6%
2025	\$4,948,141	15.8%
2026 Budget	\$6,265,770	N/A
Average Change		5.7%

## Assessment:

- Average budget-to-actual variance of 11.4% (under budget)
- Below-average cost adjustments during and after the pandemic
- Recent “catch-up” in premiums
- Expect normalized, higher growth going forward

## Relevant Data Sources for Projecting Estimates:

- CalPERS/Public Employees’ Medical and Hospital Care Act
- Historical premium cost (Town)
- Industry guidance – PWC group plan data, national premiums

## Raftelis Preliminary Assumption:

**6.6%**

- Based on historical experience and anticipated growth in healthcare cost driven by aging population
- Reflects average healthcare industry cost indicators over the past five years

# Expenditure Assumptions: Nonpersonnel Expenditures

## Historical Trend

FY	Actual	% Change
2019	\$8,667,689	N/A
2020	\$8,755,297	1.0%
2021	\$8,698,384	-0.7%
2022	\$10,869,595	25.0%
2023	\$9,786,916	-10.0%
2024	\$11,773,697	20.3%
2025	\$11,236,028	-4.6%
2026 Budget	\$10,839,863	N/A
Average Change		5.2%

## Assessment:

- Dependent on contractual arrangements
- Variability by department or expenditure type

## Relevant Data Sources for Projecting Estimates:

- Expenditure history by department (Town)
- Expenditure history by key drivers (Town)
- Assumed no change to base budget for Town grants

## Raftelis Preliminary Assumption:

- See details on next slide:
  - ✓ Materials and Supplies
  - ✓ Town Grants
  - ✓ Utilities
  - ✓ Purchased Services
  - ✓ Other (including retiree healthcare and leave payouts)



# Non-Personnel Expenditure Assumptions

Category	Budget-to-Actual Variance	Assumption	Growth	Comments
Materials and Supplies	5.0% (under)	Historical trends by department, weighted based on percentage of total General Fund cost	10.1% Weighted Average	Driven by Police, comprises almost 50% of total cost
Town Grants	N/A	Assumes \$155k base budget going forward	0.0%	Return to normal investment post-pandemic
Utilities	0.8% (over)	Historical trends by utility type, looks at percentage of total costs	8.0% Weighted Average	Driven by water (50% of total) average cost increase of 12% and Energy (30% of total) average cost increase of 9.4%
Purchased Services	10.2% (under)	Historical trends by department, weighted based on percentage of total General Fund cost	9.8% Weighted Average	Driven by legal costs, Police, and Community Development contracts
Other Expenses	9.9% (over)	Split between retiree medical (OPEB pay go) and all other	8.2% for Retiree Medical 5.0% for all other	Retiree medical comprises about 44% of total costs for this category

# Expenditure Assumptions: Internal Service

## Historical Trend

FY	Actual*	% Change
2019	\$3,170,513	N/A
2020	\$3,209,983	1.2%
2021	\$3,382,215	5.4%
2022	\$3,680,108	8.8%
2023	\$3,695,442	0.4%
2024	\$4,398,816	19.0%
2025	\$5,787,118	31.6%
2026 Budget	\$4,894,461	N/A
Average Change		11.1%

## Assessment:

- Deferred maintenance needs used to adjust General Fund impact for budget balancing
- Growing insurance cost, workers compensation claims activity relates to staffing levels
- Pace of technology investment, replacement, and overall maintenance cost

## Relevant Data Sources for Projecting Estimates:

- IT equipment/application and vehicle replacement plans (Town)
- Workers comp and insurance claims activity (Broker/JPA)
- Ongoing facility maintenance needs with inflation

## Raftelis Preliminary Assumptions:

- See details on next slide

\*Reflects charges for services, which may be above or below the actual cost of services, depending on the use of fund balance or other sources.

# Internal Service Fund Assumptions

Internal Service Fund	Budget-to-Actual Variance	Assumption	Growth	Comments
Liability	11.1% (under)	Assumes minimum fund balance of 5% of expenditures, growth in operating cost based on historical trends.	7.0%	Average cost of \$375k from 2019 to 2023, spiked to \$660k and then \$1.3m in past two years. Town negotiated a new JPA with some savings.
Workers Compensation	9.2% (under)	Assumes minimum fund balance of 20% of expenditures, growth in operating cost based on historical trends.	2.0%	Does not assume a significant jump in claims relative to prior years
Facility Maintenance	0.0%	Assumes minimum fund balance of 50% of expenditures, growing based on anticipated maintenance needs provided by Public Works.	15.0%	Historical growth to support ongoing maintenance has been 3.2%, some deferred maintenance is factored in based on DPW schedule provided.
IT	9.2% (over)	Assumes minimum fund balance of 100% of expenditures, growing based on anticipated replacement needs.	3.0%	Assumes 3.0% inflationary cost for ongoing maintenance. 2026 base is adjusted higher to reflect actual spend patterns
Equipment	0.4% (under)	Assumes minimum fund balance of 100% of expenditures, growing based on anticipated replacement needs.	3.0%	Assumes 3.0% inflationary cost for ongoing repair and maintenance, along with annual replacement needs

# Preliminary Outlook



# Preliminary Outlook

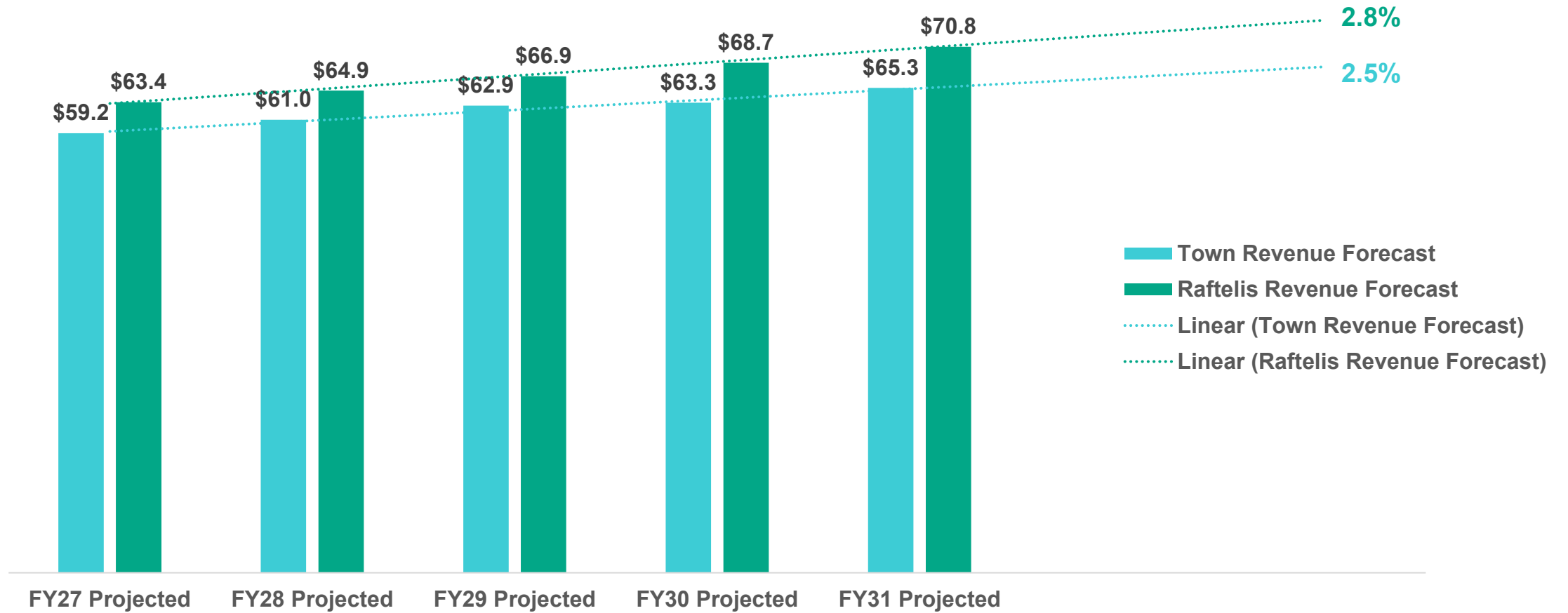
## Key Takeaways

- Raftelis assumptions and baseline model validates Town's projected structural deficit
- Service level adjustments or new ongoing revenue will be needed to balance the budget
- Prolonged deferred capital investment will increase financial risk in future years

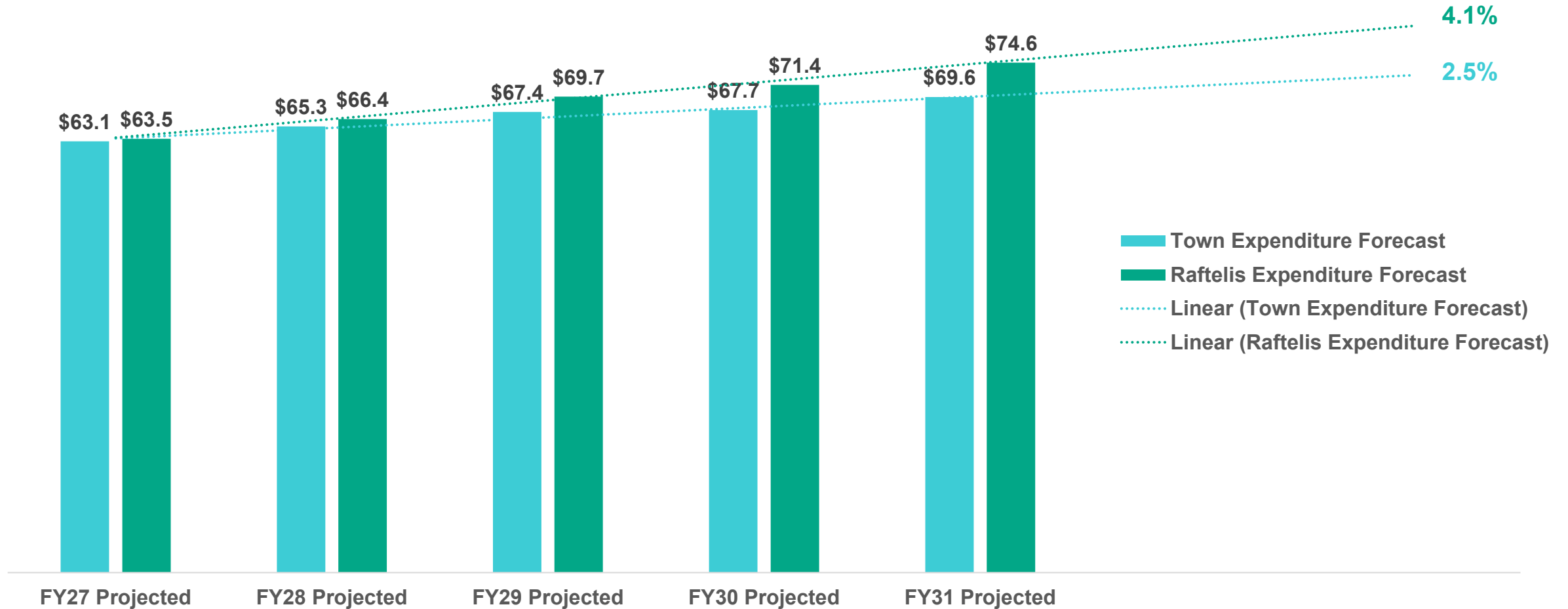
## Excluded from the Outlook

- Ongoing capital investment needs to maintain facilities
- Additional infrastructure investments to support new development
- Changes in underlying assumptions or performance of pension plans
- Technology investments beyond what IT Fund balance can absorb

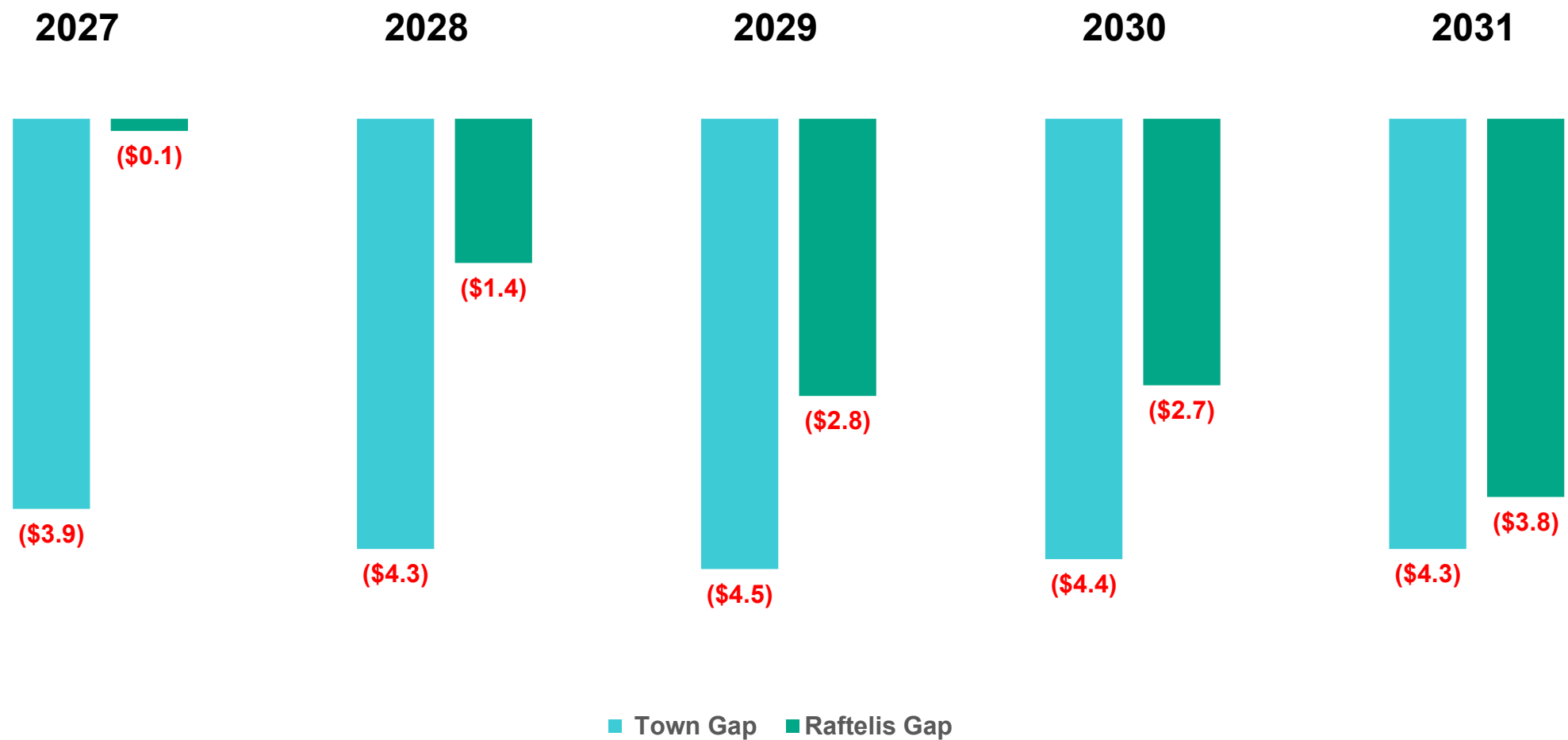
# Raftelis Prelim Outlook - Revenue



# Raftelis Prelim Outlook - Expenditures



# Prelim Structural Deficit





# Next Steps



# Next Steps

- 1 Present Assumptions and Projections to Town Council**  
February 3
- 2 Develop scenarios for comparison**  
March
- 3 Prepare Draft/Final Report**  
March/April