



**TOWN OF LOS GATOS  
FINANCE COMMISSION**

MEETING DATE: 02/02/2026

ITEM NO: 1

---

DATE: February 2, 2026  
TO: Mayor and Town Council  
FROM: Chris Constantin, Town Manager  
SUBJECT: **Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback**

**RECOMMENDATION:** Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and provide feedback.

**BACKGROUND:**

On October 21, 2025, the Town Council authorized the Town Manager to execute an agreement with NHA Advisors, LLC for fiscal analysis. The purpose was to provide independent, data-driven forecasts and risk assessments to support long-term financial planning and liability management.

**DISCUSSION:**

Since the original approval, NHA Advisors has completed preliminary modeling and provided an updated five-year and long-term forecasts (attachment 1) and Fiscal Analysis for the May 2024 Housing Element.

The purpose of this preliminary model is to have a discussion of assumptions used for both revenue and expenditure categories as well as the Housing Element analysis by NHA Advisors and for the Commission to provide feedback to the consultants that will be shared with the Council at the February 3, 2026, meeting.

**Review of Financial Forecast Assumptions and Budget Drivers:**

- Understand underlying data sources and relevant economic factors influencing the Town's revenue projections, including how recent economic trends and updated estimates from outside consultants should be factored into the baseline model

**PREPARED BY:** Kristina Alfaro  
Administrative Services Director

---

Reviewed by: Town Manager, and Town Attorney

---

SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback  
DATE: February 2, 2026

- Distinguish between predictable and less-predictable revenue categories to understand how those sensitivities impact the Town's financial outlook
- Review staffing trends and expenditure drivers that outpace inflationary trends
- Normalize for one-time or ad hoc items in the annual budget process to improve ongoing long-term estimates

**Next Steps:**

1. Present draft forecast model to the Town Council	February 3, 2026
2. Develop scenarios for comparison	March 2026
3. Prepare Draft/Final Report	March/April 2026

**Baseline Fiscal Impact Analysis for the May 2024 Housing Element**

The analysis was prepared consistent with Fiscal Impact methodology used in California, which is consistent with the example study provided in the RFP. Several public finance firms prepare these analyses with similar assumptions and methods. In putting this one together, my objective was to limit assumptions and "industry best practices" as much as possible to arrive at an objective conclusion.

**Revenues**

Property Taxes represent the largest source of revenue from the residential development contemplated in the Housing Element. The following assumptions were made in developing the property tax revenue estimates:

- Quantity of units in each of the four categories was taken from Table D-2: 191 pipeline units, 200 accessory dwelling units, 1,331 owner interest/site plan units, and 624 units from other sites.
- Pipeline projects are assumed to start immediately and take four years to build out.
- Owner interest/site plans are assumed to start next year and take 15 years to build out.
- Accessory Dwelling units are assumed to start next year and take 15 years to build out.
- Other sites are expected to start in 2031 and take 10 years to build out.
- Because there was no direct source for the price of a market rate multi-family unit in Los Gatos, I used an amount equal to 70% of the overall median home value (according to Zillow), which is a common assumption. This came out to \$1,711,935.
- Since there is a mix of Low-Mod and market rate units, I disaggregated the development based on Table D-1 and assumed that the price of the units would be proportional to income levels (as a percentage of the median income estimated in the Housing Element Update). This analysis yielded a weighted average home value of \$1,627,451.
- Accessory dwelling units are expected to cost about \$350,000 to construct, and since they are on existing properties, they will not be sold. The value of the construction will be the increase in assessed value.

SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback  
DATE: February 2, 2026

- After all planned units have been developed, the new Assessed Value is estimated to be about \$3.6 billion.
- The weighted average AB 8 apportionment factor for secured property taxes was calculated to be about 9.5%. Property Tax In-Lieu of VLF came out to an additional 2.8%.
- After all units have been developed, new property tax revenues will equal about \$4.4 million in 2026 dollars.

Sales and Use Tax represents the third largest source of revenue from the residential development contemplated in the Housing Element. The following assumptions were made in developing the sales tax revenue estimates:

- Sales tax revenues are equal to 1.125% of taxable sales, which includes the general sales tax rate and Measure G.
- A similar analysis was prepared to account for the mix of low-mod units with market rate units. The annual income was estimated for each household, and those amounts were tied to the Consumer Expenditure Survey to estimate how much in taxable sales each household will generate.
- A leakage rate estimate of 40% was used. Some studies have shown higher leakage rates for small suburban communities, but online retail has increased substantially in recent years, and the use tax mechanism will capture those revenues from Los Gatos residents.
- Sales and use tax revenues are estimated to be \$150 per household per year, resulting in revenues of \$351,675 at buildout.

Other Revenues include Franchise Fees, Licenses & Permits and Fines & Forfeitures.

- These were determined using multipliers that account for both residents and employees. At buildout, we are expecting 5,035 new residents.
- Franchise fees are estimated at \$23.77 per new resident.
- Licenses & Permits are estimated at \$144.00 per new resident.
- Fines & Forfeitures are estimated at \$7.18 per new resident.

At buildout (in current year dollars), the Housing Element is expected to generate about \$5.6 million in new revenues.

## **Expenditures**

Police Department, Parks & Public Works, Community Development, and Library Services were used to develop multipliers to estimate future expenditures.

- Non-Departmental, Administrative Services and Town Council Expenditures were considered overhead. After excluding non-operating expenditures, the overhead percentage was calculated to be 28.9%.

SUBJECT: Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback  
DATE: February 2, 2026

- Adjustments were made to Parks/Public Works, Community Development, and Non-Departmental to account for fees collected for services. The amounts taken from the Adopted Budget were deducted from the Expenditure total to arrive at a net cost.
- Police Department is estimated at \$690.26 per new resident.
- Parks and Public Works is estimated at \$332.21 per new resident.
- Community Development is estimated at \$121.75 per new resident.
- Library is estimated to be \$141.33 per new resident.

At buildout, the City is expected to take on about \$6.5 million in new expenditures.

### **Preliminary Conclusions**

The estimated net deficit at buildout is expected to be \$832,445.

This represents \$405.77 per residential unit. Willdan recommends developing a CFD for new development to help offset this amount and ensure fiscal neutrality for new development. For master planned communities, an additional tax may be added to help with maintenance and servicing of any new infrastructure and/or public facilities to be owned and operated by the Town.

We also noticed that with Licenses & Permits revenues of \$6.3 million and service revenues of \$5.7 million, the Town could possibly benefit from a User Fee Study that achieves a greater level of cost recovery.

Although this analysis focuses on ongoing, recurring expenditures, we also recommend that the Town update their Capital Improvement Plan and Development Impact Fees to ensure that the new development is required to pay for the infrastructure that their residents will necessitate.

### **CONCLUSION:**

As the Town continues to pursue various options to close the projected structural deficit and unfunded capital and operational needs, this independent review helps validate the anticipated budget gaps. The consultant's baseline forecast, although it varies from year to year, remains in line with the finance staff's original forecast even as new data and information are incorporated into the projections.

Additionally, the Housing Element Analysis shows that planned residential development will generate approximately \$5.6 million in new revenues and \$6.5 million in new expenditures, resulting in a net deficit of \$832,445 at buildout.

**PAGE 5 OF 5**

**SUBJECT:** Receive the Preliminary Baseline Forecast Model Assumptions and Fiscal Analysis for the Housing Element from NHA Advisors and Provide Feedback  
**DATE:** February 2, 2026

To ensure fiscal neutrality, recommendations include establishing a Community Facilities District (CFD), conducting a User Fee Study for improved cost recovery, and updating Capital Improvement Plans and Development Impact Fees to address infrastructure needs.

**Attachments:**

1. Presentation