



**TOWN OF LOS GATOS
MID-YEAR BUDGET REPORT
JULY 1 - DECEMBER 31, 2025**

February 5, 2026

**FINANCIAL OVERVIEW AND EXECUTIVE SUMMARY: STATUS OF FY 2025-26
ADOPTED BUDGET**

The purposes of the Mid-Year Report are to provide the Town Council with a status of the Adopted Fiscal Year (FY) 2025-26 Operating Budget after the first six months and to make any adjustments to ensure the continuity of municipal services and operations for the remainder of the fiscal year. The Report is one of several periodic updates to the Town Council on the status of the current year's revenues and expenditures and the projected financial condition of all Town funds compared with the Adopted Operating Budget. The updates typically focus on the Town's General Fund.

In February 2025, the Town Council determined the Strategic Priorities for 2025-2027, providing guidance to Town staff and Commissions on workload prioritization. This included prioritizing emergency preparedness, particularly regarding wildfire risks, ensuring prudent financial management, and preserving the community's unique small-town charm. Even with the budgetary challenges of the last several years, many of Council's primary goals and priorities have been programmed in the FY 2025-26 Operating and Capital Budgets. Town Council will review its strategic priorities at its February 10, 2026, Special Meeting.

Staff has started budget development work for the next fiscal year, including updating the Five-Year Financial Forecast, identifying critical Town needs, contractual obligations, unfunded mandates, potential adjustments to the Fee and Fine Schedule, and other analyses. Staff is actively engaged in the FY 2025-26 budget process with the primary focus of ensuring that the available Town resources are allocated to meet the priority service needs of the community. The Town Council is tentatively scheduled to hold a public hearing on the Proposed FY 2026-27 Budget on May 19, 2026.

During FY 2024-25, the General Fund had an excess of revenues over expenditures of \$5.7 million, excluding transfers. Transfers out exceeded transfers in by \$1.2 million. The principal purpose of the Town's interfund transfers was contributions toward capital projects (\$1.1 million) and general liability (\$0.06 million). Fund Balance in the General Fund increased by \$4.7 million to \$35.8 million at the close of the prior fiscal year. This increase includes \$1.2 million unrealized gains from mark-to-market adjustment and a \$0.7 million increase to the Town's restricted Pension Trust. The \$1.2 million unrealized gain is an increase in the value of the asset that has not been sold and is not available for spending. In addition, the Council previously allocated \$1.0 million for Emergency Management. Out of the \$1.0 million, \$31,400 were utilized in FY 2024-25; the rest will be spent in FY 2025-26 and future fiscal years.

For FY 2025–26, the budget was balanced by incorporating a 4.6% vacancy factor, an additional \$255,000 in pension benefit savings, potential revenue enhancements, tiered departmental reductions, and the use of \$0.9 million in reserve funds. Current year-end projections indicate an anticipated surplus of \$4.3 million when combining estimated operating revenues over expenditures. Of this amount, \$3.0 million represents estimated proceeds from a one-time property sale.

In addition, departments are requesting \$3,575,371 General Fund revenue budget adjustments and \$1,350,141 expenditure budget adjustments. As discussed in greater detail later in this Report, the primary drivers of the projected surplus are increased revenue projections for property tax, sales tax, interest, business license tax, and permit revenues offset by increases in retiree health care expenditures, legal services, and various contractually obligated services.

As mentioned earlier, the Town Council balanced the budget with a 4.6% vacancy factor. Staff continues to monitor each Department's budget because while overall Townwide General Fund savings are predicted due to vacancies, the individual Departments' current personnel expenditure budgets may not be sufficient for the remainder of the year. Staff will recommend the necessary expenditure budget adjustments as needed.

Providing services to the community in this and future fiscal years will require strong revenue performance of the Town's economically sensitive revenues to offset continued projected cost increases. The FY 2026-27 budget development process will endeavor to maintain essential public services while controlling operational costs and considering the five-year fiscal forecast, which predicts operating revenue shortfalls in subsequent fiscal years with certain assumptions.

CONTENT OVERVIEW

The remainder of this Report focuses on the General Fund and provides analyses of key revenues and expenditures, including historical data by Town Department/Service Area. The next section describes recommended revenue and expenditure budget adjustments. The Report also includes financial summaries of other funds, as well as a table of General Fund Operating Revenues Versus Operating Expenditures through the second quarter of FY 2025-26, including comparison information from the prior year.

GENERAL FUND FINANCIAL SUMMARIES AND ESTIMATES

The following table is the *Schedule of General Fund Operating Revenues Versus Operating Expenditures* for the second quarter of FY 2025-26, which includes comparison information from the prior year.

The FY 2025-26 Adopted Budget represents the original adopted budget.

The FY 2025-26 Adjusted Budget as of 12/31/2025 column includes the adopted budget and items that the Council approved during the first two quarters of the fiscal year, such as additional funding for salaries and benefits, janitorial services, road closures related to special events, and miscellaneous carryover grants from the prior fiscal year.

The FY 2025-26 Estimated column contains projections of final balances for the current fiscal year based upon staff analysis, the early trends observed through the second quarter in sales tax and property tax projections, and the proposed mid-year adjustments as listed in this report. The FY 2025-26 Estimated figures also include an analysis of potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.

Staff continues to fine-tune the detailed analysis of the FY 2025-26 year-end estimated revenue and expenditure numbers, and an update will be provided with the presentation of the Proposed Fiscal Year 2026-27 Operating Budget.

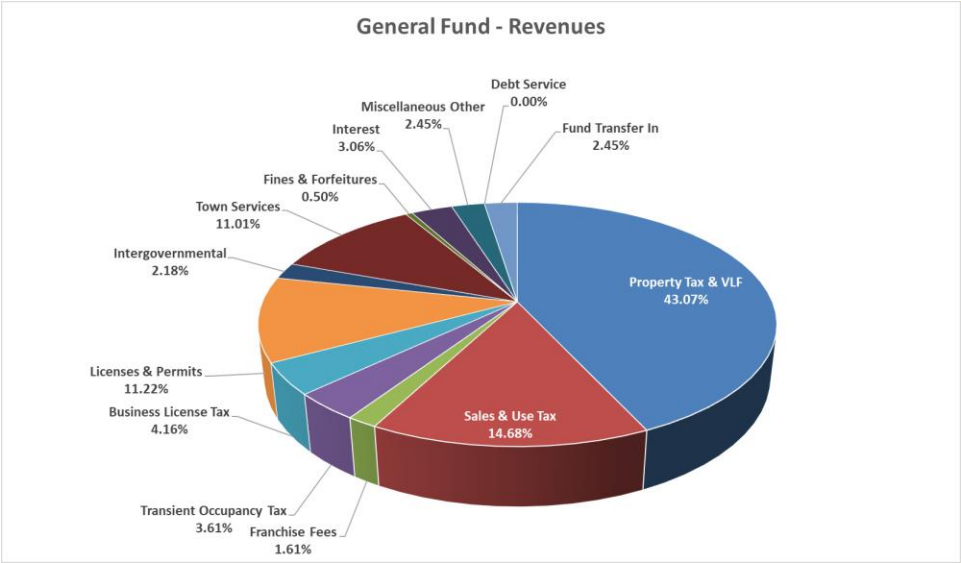
The table on the next page provides details of General Fund Revenues, Reserve Use, total Expenditures, and Reserve Allocations.

GENERAL FUND									
SUMMARY OF REVENUES AND EXPENDITURES									
	FY 2024-25 Actuals	FY 2024-25 Q2	2Q % of FY 2024-25 Actuals	2Q % of FY 2025-26 Adjusted Budget as of 12/31/2025	FY 2025-26 Q2	FY 2025-26 Adopted Budget	FY 2025-26 Adjusted Budget as of 12/31/2025	Proposed Mid-Year Adjustments	FY 2025-26 Year End Estimates Including Proposed Mid-Year Adjustments
Revenues									
Property Tax	\$ 20,157,765	\$ 6,687,445	33.2%	32.5%	\$ 6,981,476	\$ 21,450,971	\$ 21,450,971	\$ 68,164	\$ 21,519,135
VLF Backfill Property Tax	5,109,100	-	0.0%	0.0%	-	5,377,328	5,377,328	28,672	5,406,000
Sales & Use Tax	6,992,336	2,082,120	29.8%	32.2%	2,138,351	6,639,081	6,639,081	1,207,436	7,840,000
Measure G Sales & Use Tax	1,338,642	428,741	32.0%	33.5%	435,464	1,298,825	1,298,825	30,175	1,329,000
Franchise Fees	1,057,484	113,842	10.8%	9.8%	101,773	1,043,730	1,043,730	(34,892)	1,008,838
Transient Occupancy Tax	2,417,630	941,711	39.0%	31.0%	749,774	2,422,390	2,422,390	(166,585)	2,255,805
Business License Tax	2,975,721	153,569	5.2%	16.0%	399,756	2,493,992	2,493,992	107,508	2,601,500
Licenses & Permits	6,681,607	2,983,426	44.7%	60.1%	3,800,214	6,322,712	6,322,712	689,959	7,014,459
Intergovernmental	1,357,593	796,630	58.7%	72.3%	778,450	838,936	1,076,042	(38,691)	1,307,778
Town Services	5,749,945	3,732,385	64.9%	88.4%	5,285,486	5,736,735	5,980,545	967,821	6,957,561
Fines & Forfeitures	420,127	187,733	44.7%	73.4%	231,288	315,200	315,200	(3,000)	312,775
Interest	1,949,418	374,836	19.2%	39.2%	615,033	1,567,774	1,567,774	345,487	1,913,261
GASB 31 to Market	1,201,824	-	0.0%	-	-	-	-	-	-
Use of Property	76,161	-	0.0%	-	-	-	-	-	-
Miscellaneous Other	190,104	533,750	280.8%	14.1%	270,499	3,795,501	1,920,471	379,834	1,533,255
Other Taxes - Park Construc	5,004	-	-	-	-	-	-	-	-
Sale of Property	-	-	-	-	-	-	3,000,000	-	3,000,000
Total Revenues	\$ 57,680,461	\$ 19,016,188			\$ 21,787,564	\$ 59,303,175	\$ 60,909,061	\$ 3,581,888	\$ 63,999,367
Debt Service - Entry Elimina	1,902,300	-	0.0%	0.0%	-	1,901,850	1,901,850	-	1,901,850
Planning Pass Through Services - Entry Eliminated for ACFR	79,400	-	-	-	-	-	-	-	-
Pension Trust Income - Entry Eliminated for ACFR	690,000	-	-	-	-	-	-	-	-
Measure G for Operations - Entry Eliminated for ACFR	652,396	-	-	-	-	-	-	-	-
Other Financial Sources									
Fund Transfer In	\$ 812,411	\$ -	0.0%	0.0%	\$ -	\$ 562,411	\$ 562,411	\$ -	\$ 562,411
Total Revenues & Transfers	\$ 61,816,968	\$ 19,016,188	31%	34%	\$ 21,787,564	\$ 61,767,436	\$ 63,373,322	\$ 3,581,888	\$ 66,463,628
Expenditures									
Town Council	\$ 222,954	\$ 104,644	46.9%	49.7%	\$ 110,352	\$ 222,115	\$ 222,115	\$ -	\$ 233,667
Attorney	1,076,252	398,986	37.1%	50.3%	594,515	830,884	1,180,884	100,000	1,293,243
Administrative Services	6,428,009	3,161,963	49.2%	40.5%	3,367,328	7,338,116	8,308,150	153,305	7,245,642
Non- Departmental	3,157,197	1,641,596	52.0%	24.1%	1,391,498	5,345,295	5,775,829	300,191	5,977,662
Community Development	5,637,743	2,646,092	46.9%	50.1%	3,020,911	6,021,135	6,027,635	502,500	6,368,565
Police	20,827,880	10,269,947	49.3%	46.2%	10,992,545	23,504,430	23,768,356	93,370	23,095,918
Parks & Public Works	10,717,232	4,920,014	45.9%	43.5%	5,068,319	11,404,963	11,653,693	200,775	11,649,244
Library	3,568,498	1,722,056	48.3%	47.8%	1,747,675	3,655,823	3,655,823	-	3,652,651
Capital Outlay	65,000	-	-	-	-	-	-	-	-
Principal	206,380	-	-	-	-	156,034	-	-	156,034
Interest and Fees	41,403	-	-	-	-	-	-	-	-
Total Department Expenditu	\$ 51,948,548	\$ 24,865,298	48%	43%	\$ 26,293,143	\$ 58,478,795	\$ 60,592,485	\$ 1,350,141	\$ 59,672,626
Debt Service - Entry Eliminated for ACFR	\$ 1,902,300	\$ -	0.0%	0.0%	\$ -	\$ 1,901,850	\$ 1,901,850	\$ -	\$ 1,901,850
Transfer to Pension Trust Fund - Entry Eliminated for ACFR	690,000	-	-	-	-	-	-	-	-
Measure G Transfer - Entry Eliminated for ACFR	652,396	-	-	-	-	-	-	-	-
Other Financing Uses									
Transfers Out	\$ 1,843,080	\$ -	0.0%	-	\$ -	\$ -	\$ -	\$ -	\$ -
Total Additional Non-Depar	\$ 5,087,776	\$ -	0%	0%	\$ -	\$ 1,901,850	\$ 1,901,850	\$ -	\$ 1,901,850
Total Operating Expenditure	\$ 57,036,324	\$ 24,865,298	44%	42%	\$ 26,293,143	\$ 60,380,645	\$ 62,494,335	\$ 1,350,141	\$ 61,574,476
Revenues Over									
Expenditures	\$ 5,731,913	\$ (5,849,110)			\$ (4,505,579)	\$ 824,380	\$ 316,576	\$ 2,231,747	\$ 4,326,741

*FY 2024-25 and FY 2025-26 2Q Net Operating Revenues are negative because some revenues budgeted for the entire fiscal year are received in the third or fourth quarters and fund expended in the first or second quarters.

GENERAL FUND - KEY REVENUE ANALYSIS FY 2025-26

The following information provides a recap of the General Fund budgeted significant revenue sources, including estimated year end collection as of the second quarter ending December 31, 2025. Staff is monitoring developments in each major revenue source closely for potential adjustments to budgeted revenues as recommended in this Report.



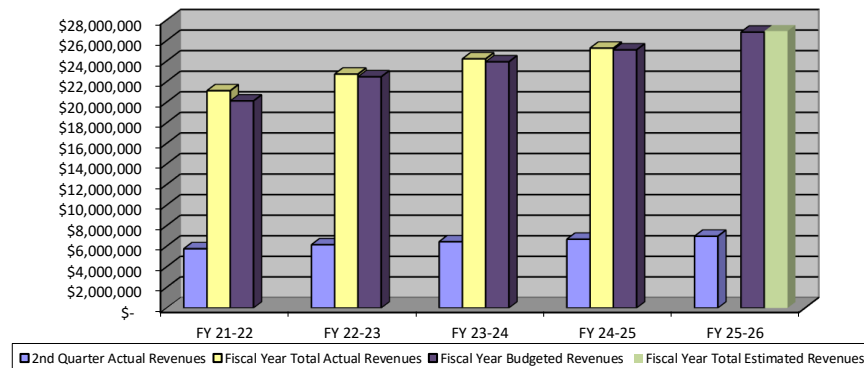
Property Tax and Motor Vehicle in Lieu Fee (VLF)

Property tax and VLF are the single largest revenue sources for the Town and comprise approximately 42.09% of total Town General Fund estimated revenues for FY 2025-26. Property tax is levied by the Santa Clara County Assessor's Office at 1% of a property's assessed value, of which the Town receives approximately 9.3 cents per dollar paid on property located within the municipal limits of Los Gatos. In compliance with Proposition 13, the assessed value of real property is based on the 1975/76 assessment roll value, adjusted by a 2% inflation factor annually thereafter. However, when property changes hands or new construction occurs, it is reassessed at its current market value.

The County of Santa Clara provides property tax collection updates and projections throughout the year. The current County estimate shows a \$96,836 increase in estimated collections over the Adopted Budget.

Property tax distributions are largely received in the third and fourth quarters. Second-quarter receipts are trending similarly to those received during the second quarter of the previous fiscal year and are at 27% of budgeted totals. Based on current County projections, staff recommends a \$96,836 increase in estimated General Property Tax and Motor Vehicle in Lieu Fee collections.

**Property Tax and VLF - Quarterly and Annual Revenues
5-Year History**



	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
2nd Quarter Actual Revenues	\$ 5,761,081	\$ 6,155,317	\$ 6,446,869	\$ 6,687,445	\$ 6,981,476
Fiscal Year Total Actual Revenues	\$ 21,129,080	\$ 22,743,088	\$ 24,227,166	\$ 25,266,865	\$ 26,925,135
Fiscal Year Budgeted Revenues	\$ 20,138,320	\$ 22,484,118	\$ 23,938,717	\$ 25,102,070	\$ 26,828,299
2nd Quarter Percent of Total	27%	27%	27%	27%	26%
Recommended Budget Revision					\$ 96,836

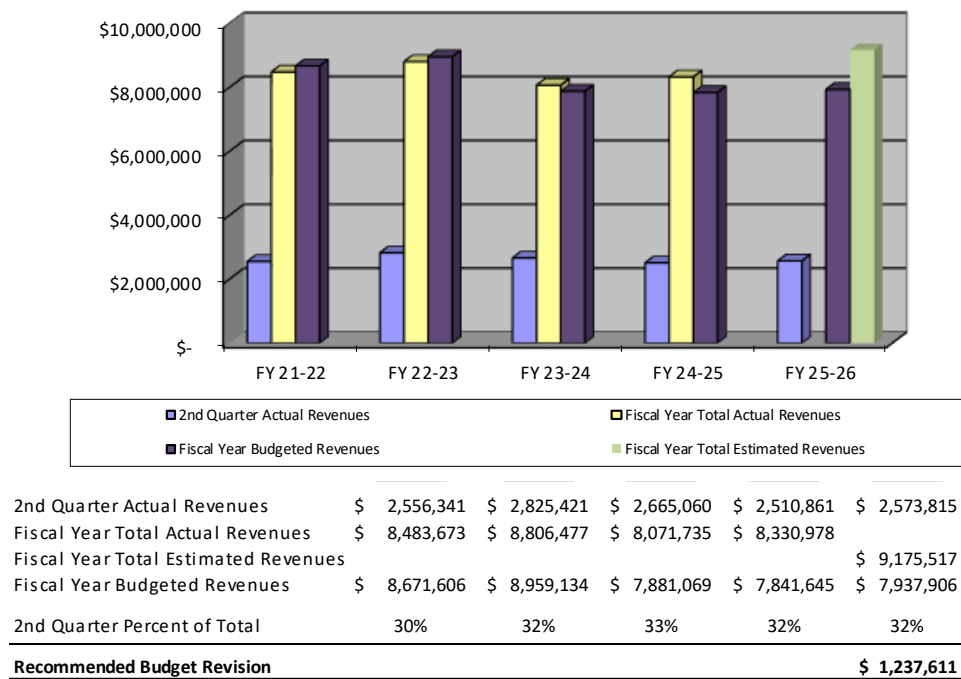
Sales Tax

Sales tax is the second largest revenue source for the Town's General Fund, accounting for 14.3% of budgeted General Fund projected revenues for FY 2025-26. The Town currently receives 1.125 cents for every 9.125 cents of sales tax paid per dollar on retail sales and taxable services transacted within Los Gatos, including the Town of Los Gatos residents' approved ballot Measure G in 2018 enacting a one-eighth cent (0.125%) district sales tax for 20 years.

Sales tax estimates are based on actual sales tax data and annual sales tax estimates for five years provided by the Town's sales tax consultant, HdL. In addition to brick-and-mortar sales tax generation, the HdL estimates include several online sales tax projections. Regular sales tax collected through online transactions are distributed through the Santa Clara County pool for which the Town receives a pro rata share of the sales tax generated in Santa Clara County for that particular quarter. The Town directly receives the one-eighth district tax portion of the sales tax generated by the residents of Los Gatos. Current total sales tax estimates are estimated at \$7,846,517 (a \$1,207,436 increase from the Adopted Budget) in proceeds from regular sales tax and \$1,329,000 (a \$30,175 increase) in proceeds from the Measure G one-eighth cent district tax. Actual receipts net of administrative fees collected by the State will be confirmed at the close of the fiscal year.

While FY 2025-26 second quarter receipts are trending in line with those in the same period last fiscal year, staff recommends a \$1,237,611 budget increase to reflect the HdL's current estimates that are driven by new businesses and updated forecast based on most recent collection for 2025 quarter 3 collection which are collections from Jul through September.

**Sales Tax & Measure G Tax - Quarterly and Annual Revenues
5-Year History**



\$ 322,804	\$ (734,742)	\$ 259,243	\$ 844,539
3.81%	-8.34%	3.21%	10.14%

Franchise Fees

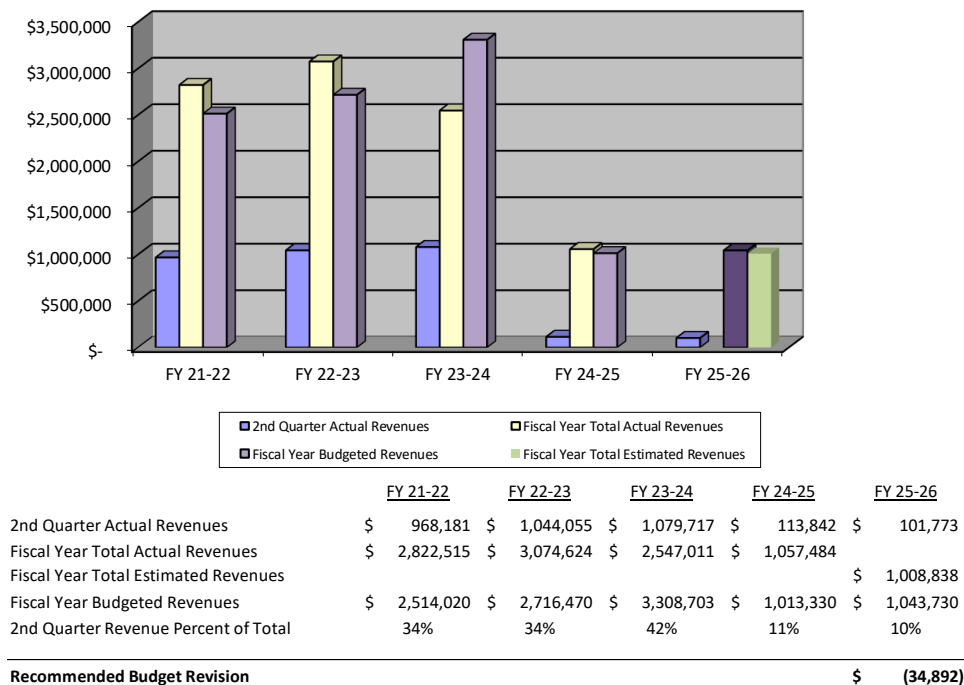
Franchise fees are collected by the Town for the privilege of operating a utility service within Los Gatos, and as a fee in lieu of a business license tax. Franchise fees are currently received from Comcast for cable television, PG&E for gas and electric services, and AT&T and Comcast for video services. Franchise fees represent 1.6% of projected General Fund revenues in FY 2025-26.

Historically, franchise payments are not remitted equally throughout the fiscal year; therefore, second quarter receipts are not necessarily predictive of future receipts. Total franchise fee revenues are trending lower than those of the second quarter in FY 2025-26.

The Town serves on the Board of the West Valley Solid Waste Management Authority (WVSWMA), a Joint Powers Authority that oversees solid waste contracts. Following a recent Franchise Fee Valuation Study, the new agreement reclassified the Franchise Fee Payment as an Encroachment Permit because collection vehicles use Town streets. Starting with FY 2024–25, revenue previously recorded under Franchise Fees is now reported under Licenses and Permits. While collections are expected to remain consistent with prior years, this change affects how revenues are categorized.

Comcast franchise fees are trending below budget due to the growing shift from traditional broadcasting to streaming services, while PG&E franchise fees are trending above budget. To reflect the combined impact of these trends, staff recommends a \$34,892 budget decrease in the Franchise Fee category.

**Franchise Fees - Quarterly and Annual Revenues
5-Year History**

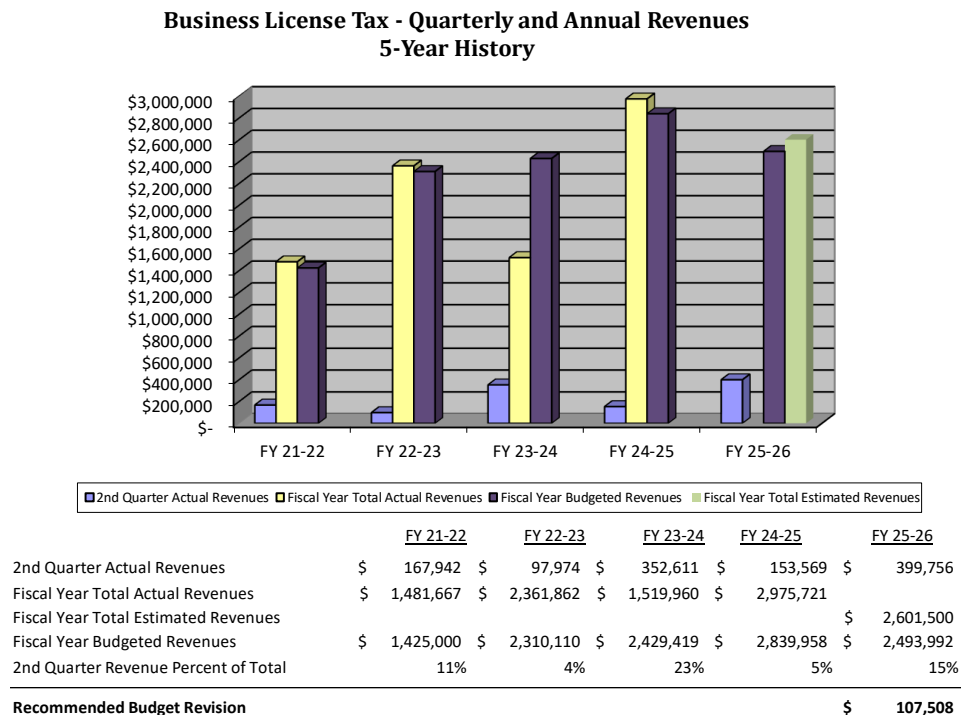


Business License Tax

The Town requires all businesses located within Los Gatos and/or those that operate within Los Gatos to obtain a business license. The amount of business license tax paid by each business is based on its business activity. In November 2022, Los Gatos voters approved Measure J, which modernized the Town's business license tax program. This was the first update to the program since 1991, strengthening funding for core Town services that benefit Town businesses. Measure J included a 30% increase on flat rate fees, a 40% increase in retailing gross receipts, and a 120% increase in e-commerce, manufacturing, and wholesaling gross receipts. Fees for activities such as wholesale sales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$1,365. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. Annual renewal payments are due on January 2 of each year. Payments for new flat-fee-based businesses are prorated by quarter.

The Town is partnering with HdL Companies (HdL) to provide dedicated business license support to Los Gatos businesses. The Town's business license application and renewal process is now streamlined by offering online business license applications and renewals. FY 2025-26 collection is forecasted at \$2.6 million based on current business license activities.

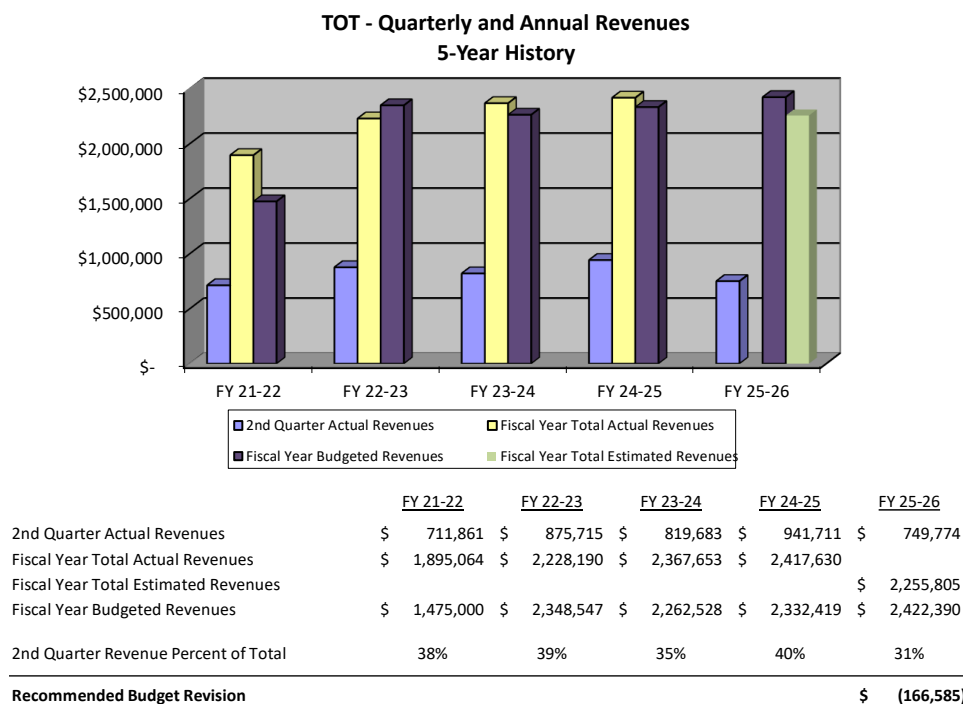
Staff anticipate collecting the majority of the business license revenue during the third quarter. Business license tax revenue projections provided by HdL are trending higher than the adopted budget due to current business license activities. Staff is recommending a \$107,508 increase to this revenue source.



Transient Occupancy Tax

TOT is an important revenue source for the Town and comprises approximately 3.5% of the total Town's estimated revenues in the amount of \$2.3 million for FY 2025-26. The Town levies a 12% transient occupancy tax (TOT) on all hotel and motel rooms within the municipal limits of Los Gatos. The 12% rate has been in effect since January 1, 2017, after the voters approved a ballot measure to increase the TOT from 10% to 12% during the November 8, 2016, election.

During the pandemic, TOT experienced the most significant percentage decline relative to historically adopted budgets. Due to a significant rebound in leisure “staycation” travel and modest improvements in business travel, TOT collections are trending lower than the prior year due to one of the hotel closures. Staff recommends a \$166,585 revenue budget decrease in this category.

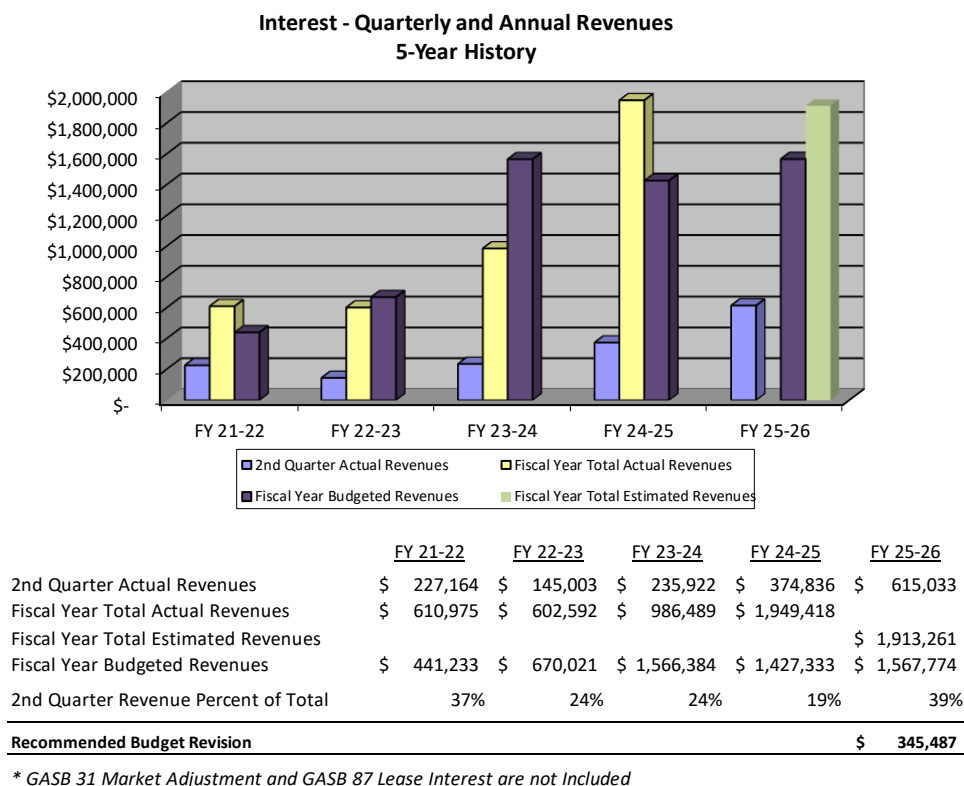


Interest Income

The Town earns interest income by investing monies not immediately required for daily operations in a number of fixed income and money market instruments. These investments are made within the parameters stated in the Town Council's Investment Policy and State regulation. The Town's investment goal is to protect the safety of its funds, maintain liquidity, and achieve a competitive rate of return. Interest income revenue is primarily dependent on two factors: the cash balance in the Town's investment portfolio and the yield on those funds.

As of December 31, 2025, the Town's weighted portfolio yield for investments under management was 4.24%, which was 21 basis point above the Local Agency Investment Fund (LAIF) yield of 4.03% for the same reporting period. Currently, the LAIF portfolio's weighted average maturity (WAM) is 244 days versus the Town's longer WAM of 643 days. The longer WAM for Town assets under management reflects the Town's strategy to take advantage of higher yields associated with longer maturities balanced with shorter-term yields available on investments held with the State's LAIF. The Town's weighted average rate of return on investments under management of 4.24% at the close of December was 3 basis points lower when compared to the prior month's return of 4.27% reported as of November 30, 2025.

Interest is trending higher than prior year actuals. Staff is recommending \$345,487 revenue budget increase in the General Fund interest collection.

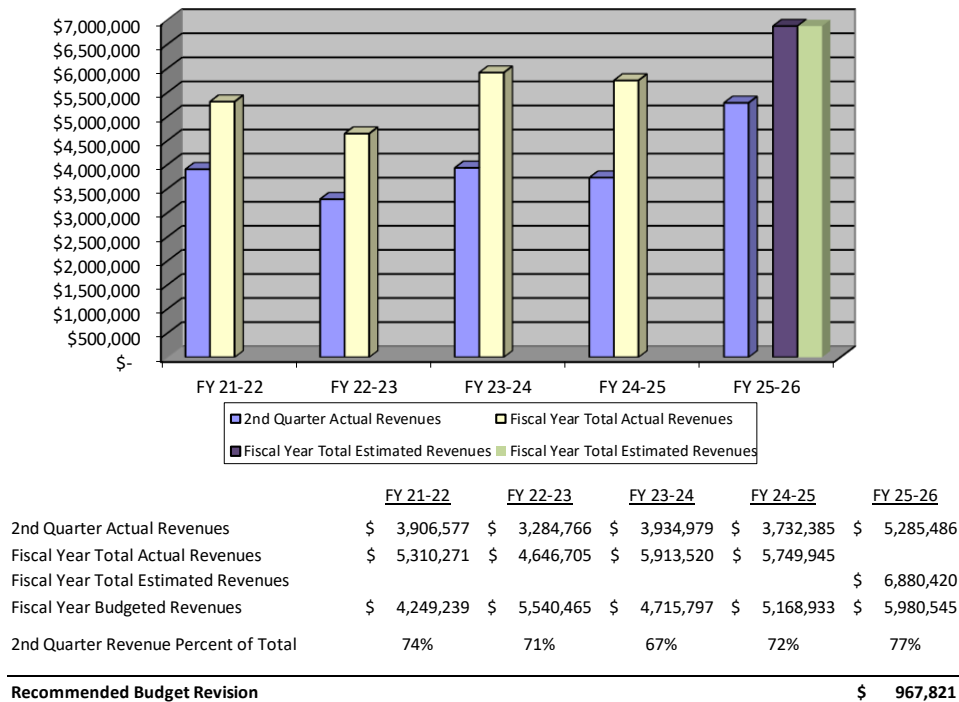


Charges for Services

Town Service revenues consist primarily of planning, building, inspections, and engineering fees assessed on local building and development activity. Development fees and charges are assessed based on cost recovery formulas, which reflect the approximate costs of providing these regulatory services. This category includes charges for the Monte Sereno police services, the School Resource Officer and crossing guard services.

Second quarter Town Service revenues, particularly Charges for Services, are trending higher compared to the same period in the previous fiscal year. Development fees are typically collected in advance for projects but recognized as revenue in the fiscal year when the work is performed. Fiscal year estimated revenues include all line items within this category. To reflect increased planning and engineering activities, staff recommends a budget increase of \$967,821 in selected items, as detailed in the Budget Adjustment section of this report. Of this amount, \$615,500 relates to development pass-through activities, which will have corresponding expenditure budget adjustments, resulting in a net-neutral impact to the General Fund balance.

**Charges for Services - Quarterly and Annual Revenues
5-Year History**

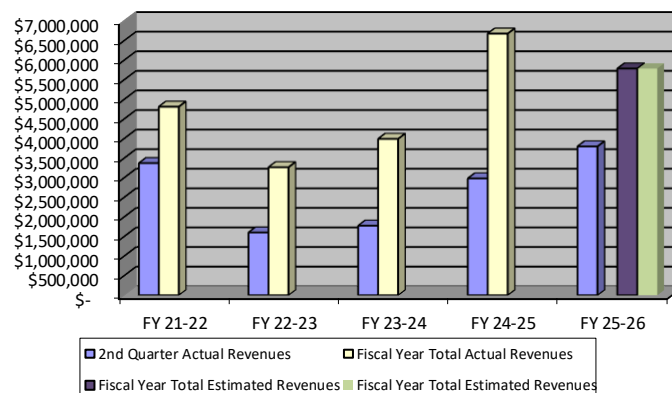


Licenses and Permits

Licenses and Permits consist mainly of planning, engineering, and building permit fees which are collected by the Town to offset administrative costs associated with evaluating development proposals to ensure compliance with codes and policies.

Second quarter License and Permit revenue is trending 54% of budgeted revenue. Fiscal Year estimated revenues includes all revenue line items in this category. Staff recommends a \$689,959 increase in selected items in this category as explained in the next section of this Report.

**Licenses & Permits - Quarterly and Annual Revenues
5-Year History**



	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
2nd Quarter Actual Revenues	\$ 3,373,287	\$ 1,602,633	\$ 1,777,085	\$ 2,983,426	\$ 3,800,214
Fiscal Year Total Actual Revenues	\$ 4,814,650	\$ 3,268,498	\$ 3,993,247	\$ 6,681,607	\$ 5,789,497
Fiscal Year Total Estimated Revenues					\$ 7,014,459
Fiscal Year Budgeted Revenues	\$ 3,052,907	\$ 2,830,574	\$ 3,255,155	\$ 6,247,213	\$ 7,014,459
2nd Quarter Revenue Percent of Total	70%	49%	45%	48%	54%
Recommended Budget Revision					\$ 689,959

GENERAL FUND – EXPENDITURE ANALYSIS

For FY 2025–26, General Fund operating expenditures (excluding debt payments) are programmed at \$58.3 million. The delivery of Town services is highly dependent on personnel, which accounts for 68.6% of the budgeted General Fund operating expenditures for the fiscal year. Throughout the year, the Town Council has approved several budget adjustments, which are tracked against the Adopted Budget to form the Adjusted Budget. General Fund expenditure totals are trending in line with the Adjusted Budget, with total operational expenditures at the end of the second quarter at approximately 46% of the Adjusted Budget. With six months of data now available, staff anticipate that some departmental expenditure budgets may not be sufficient for the remainder of the year. If necessary, staff will recommend additional expenditure budget adjustments, which may require future Council action.

Salaries and Benefits

As with most municipalities, services are provided directly by employees to the Town’s residents, businesses, and visitors. As a service delivery enterprise, the cost of salaries and benefits is a significant portion of the budget. As the table below illustrates, at mid-year, actual salaries are trending at 46% of budgeted salaries; overtime is trending at 84% of the Adjusted Budget; and pension benefits and other benefits are trending at 43% and 42% of the Adjusted Budget, respectively.

General Fund Salaries & Benefits								
	FY 2024-25 Actuals	FY 2024-25 2Q	2Q % of FY 2024-25 Actuals	2Q % of FY 2025-26 Adjusted Budget	FY 2025-26 2Q	FY2025-26 Estimated	FY 2025-26 Adjusted Budget	FY 2025-26 Adopted Budget
Salaries	\$ 22,368,951	\$ 10,910,118	49%	48%	\$ 11,100,505	\$ 23,405,209	\$ 23,182,932	\$ 23,182,932
Overtime	\$ 1,333,709	\$ 747,234	56%	84%	\$ 595,047	\$ 1,384,604	\$ 704,376	\$ 657,310
Pension Benefits	\$ 8,262,903	\$ 4,051,720	49%	43%	\$ 4,299,360	\$ 8,790,965	\$ 9,907,119	\$ 9,907,119
Other Benefits	\$ 4,948,141	\$ 2,413,604	49%	42%	\$ 2,620,451	\$ 5,349,271	\$ 6,265,770	\$ 6,265,770
Total Salary & Benefit	\$ 36,913,704	\$ 18,122,676	49%	46%	\$ 18,615,363	\$ 38,930,049	\$ 40,060,197	\$ 40,013,131

The FY 2025-26 budget was balanced including 4.6% vacancy factor and \$255,000 pension benefit savings, while Council directed that staff continue to hire for all vacant positions. The 4.6% salary and benefit savings represents approximately \$2.2 million projected savings. Current year end general Fund salaries and benefits expenditure estimates include about \$1.1 million salary savings compared to the adjusted budget that already includes the projected savings. Fully staffed Departments are trending over budget due to the 4.6% vacancy factor that was built in. Staff will continue to monitor the Salaries and Benefits and request adjustment as needed to ensure that all programs remain within its allocated budget before Fiscal Year end.

Vacancy Factor Evaluation

FY 2023-24

FY 2023-24 presented the first year when the budget was balanced with the 4.6% vacancy factor. For FY 2023-24 the final General Fund salaries and benefits budgets of \$35,611,692, include a negative \$1,670,530 original salary savings and a positive \$714,666 budget restoration for Departments that were fully staffed. In addition, the General Fund had \$1,041,299 salaries and benefits savings. While individual Departments had various savings, the Townwide General Fund salaries and benefits savings would translate to 5.5% increase if all positions are budgeted without vacancy savings factors.

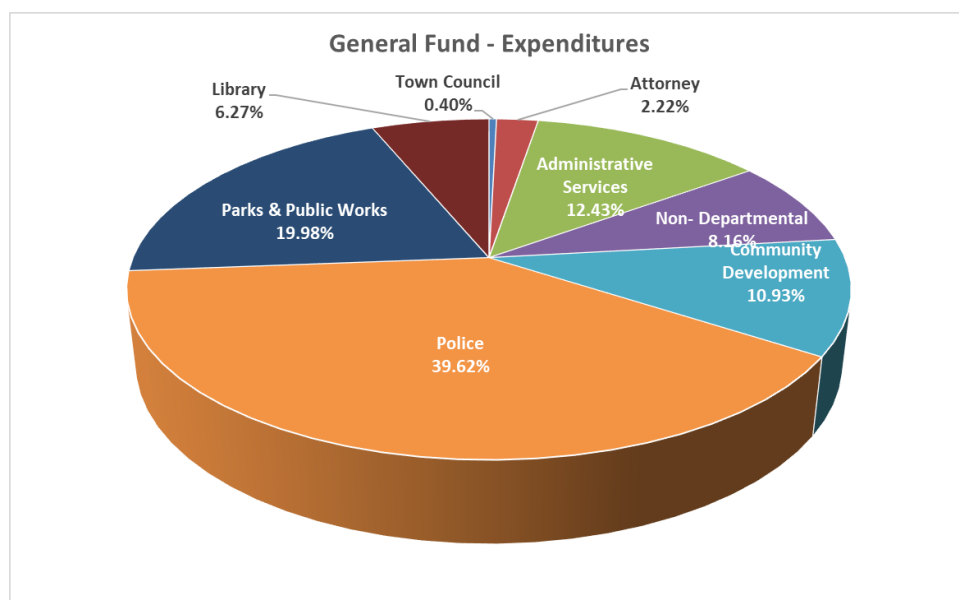
FY 2024-25

During Fiscal Year 2024–25, the Town’s revised General Fund salaries and benefits budget totaled \$38,441,072, including a negative adjustment of \$1,798,984 to reflect anticipated vacancy savings based on a 4.6% vacancy saving rate. Actual expenditures for salaries and benefits amounted to \$36,913,705. However, several departments remained fully staffed throughout the fiscal year and did not realize vacancy-related savings. In response, the Town Council authorized budget adjustments for these departments, allowing for a partial restoration of the previously reduced budget—up to the full amount of the anticipated vacancy savings. These budget adjustments totaled \$300,304, increasing the final adjusted budget to \$38,741,376. With this adjustment, the final budget savings increased to \$1,827,671, representing the difference between the adjusted budget and actual expenditures.

Note: If the original 4.6% vacancy savings factor had not been applied, the “full” budget would amount to (\$38,441,078 + \$1,798,984), the Town would have realized total savings of \$3,305,656 equating to an 8.96% vacancy savings rate.

The FY 2024-25 budget included a significant hire ahead budget for the Police Department. Those hire ahead funding were not included in the FY 2025-26 adopted budget, so staff recommends to keep the 4.6% vacancy factor at this time.

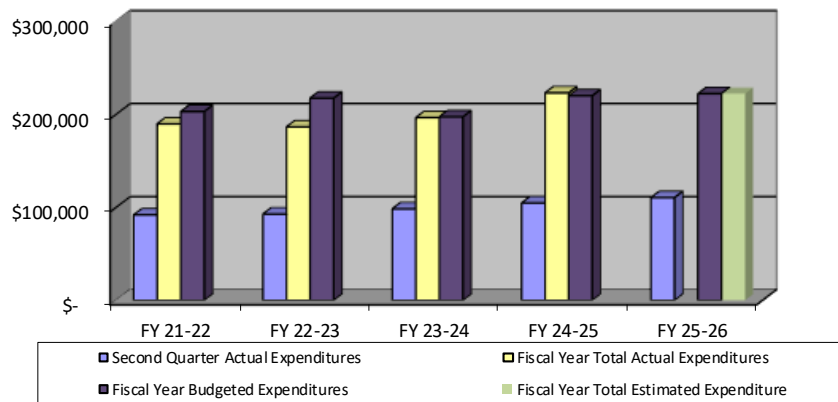
The pie chart below represents the Departmental proportion of the Town’s General Fund estimated operating expenditures. The subsequent pages review program expenditures and any anticipated savings are provided for each program. Also provided are historical program costs, year over year (YOY) percentage changes in actual expenditures, and five-year average changes per the Finance Commission’s suggestion. YOY percentage changes are, in many cases, impacted by the timing of one-time expenditures that occur during the fiscal year. Historical analysis has been provided in selected cases to provide explanations for some of the fluctuations between fiscal years. The FY 2025-26 estimated figures also include analysis on potential salary and other expenditure savings; however, budget adjustments are only recommended as identified in this Report.



Town Council

The Town Council is the elected legislative body that represents the residents and provides policy direction for the delivery of services and capital improvements for the Town of Los Gatos. Town Council expenditures are trending higher than the same quarter in the prior year. Total estimated expenditures are also trending higher than budget because this Department is fully staffed. Staff will monitor this program and request a budget adjustment, if necessary, before Fiscal Year end.

**Town Council - Quarterly and Annual Expenditures
5-Year History**



	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>	<u>FY 25-26</u>
Second Quarter Actual Expenditures	\$ 91,800	\$ 92,674	\$ 98,255	\$ 104,644	\$ 110,352
Fiscal Year Total Actual Expenditures	\$ 189,569	\$ 186,337	\$ 196,368	\$ 222,954	\$ 222,115
Fiscal Year Total Estimated Expenditure					\$ 222,115
Fiscal Year Budgeted Expenditures	\$ 202,891	\$ 217,238	\$ 197,261	\$ 219,814	\$ 222,115
Second Quarter Percentage of Total	48%	50%	50%	48%	50%

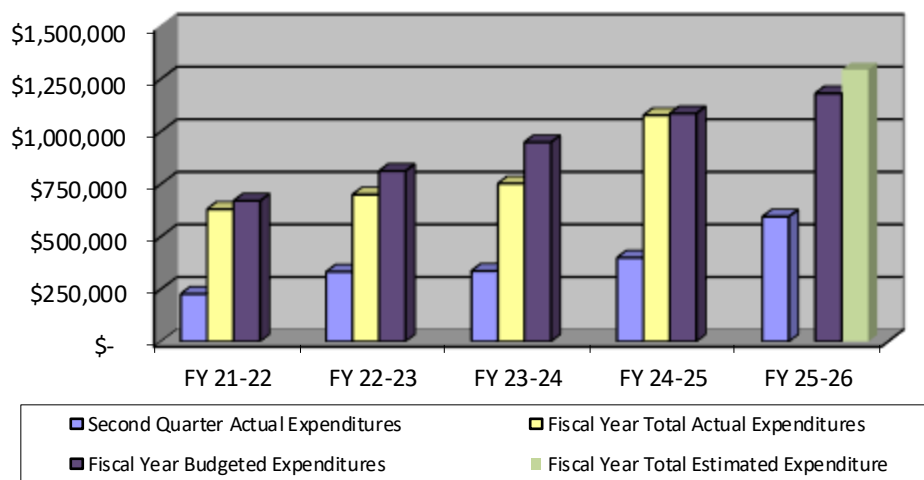
Recommended Budget Revision	\$ -
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YOY Percentage Changes	-7.93%	-1.70%	5.38%	13.54%	-0.38%
5-year Average Percentage Change					1.78%

Town Attorney

The Town Attorney is the legal advisor to the Town Council, Successor Agency to the former Redevelopment Agency, and Town staff. In this capacity, the office of the Town Attorney provides a wide range of legal services to ensure that Town actions and activities are legally sound. Town Attorney program expenditures are trending at 50% at the second quarter. Staff recommends a \$100,000 expenditure budget increase to provide additional legal support anticipated for the Department.

**Town Attorney - Quarterly and Annual Expenditures
5-Year History**



	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>	<u>FY 25-26</u>
Second Quarter Actual Expenditures	\$ 226,377	\$ 332,183	\$ 336,063	\$ 398,986	\$ 594,515
Fiscal Year Total Actual Expenditures	\$ 629,935	\$ 699,143	\$ 751,614	\$1,076,252	
Fiscal Year Total Estimated Expenditure					\$1,293,243
Fiscal Year Budgeted Expenditures	\$ 669,733	\$ 811,426	\$ 947,963	\$1,085,157	\$1,180,884
Second Quarter Percentage of Total	36%	48%	45%	37%	50%

Recommended Budget Revision	\$ 100,000
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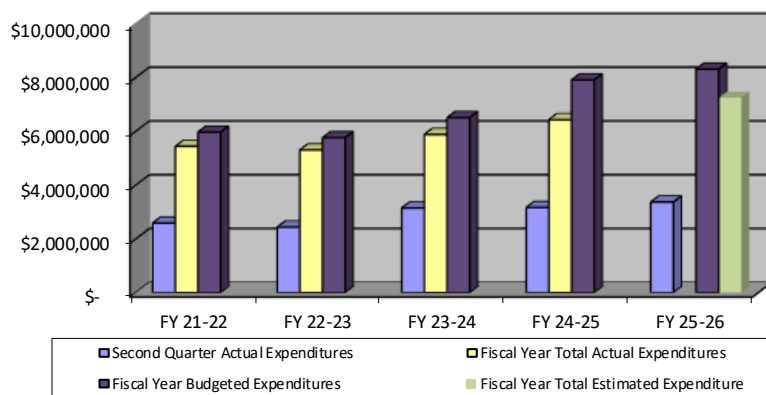
YOY Percentage Changes	11.98%	10.99%	7.51%	43.19%	20.16%
5-year Average Percentage Change					18.77%

Administrative Services

The Town Manager provides overall management, administration, and direction for the entire Town organization, reporting to the full Town Council. Administrative Services incorporates five key programs: Town Manager's Office, Emergency Management Program, Economic and Community Vitality Program, Clerk Department, Finance Department, Human Resources Department, and Information Technology.

Administrative Services program expenditures are trending at 41% of the adopted budget at mid-year, and staff estimates approximately \$1 million in expenditure savings within this program. Most of these savings are attributable to the emergency management spending plan, for which \$1,000,000 was previously allocated but, based on current-year expenditures, is expected to yield \$900,000 in savings. The projected savings are earmarked for potential grant match and will be spent in the appropriate fiscal year. Additional savings are expected in staff salaries and benefits, travel and training, and office supplies. Staff requests a \$58,933 expenditure budget adjustment to account for Finance Department transition costs, increased business license processing fees, and decreases in special event-related road closure costs. This adjustment also reflects reductions in grant expenditures, as a multi-year grant previously expected to extend into FY 2025–26 concluded in the prior fiscal year.

**Administrative Services - Quarterly and Annual Expenditures
5-Year History**



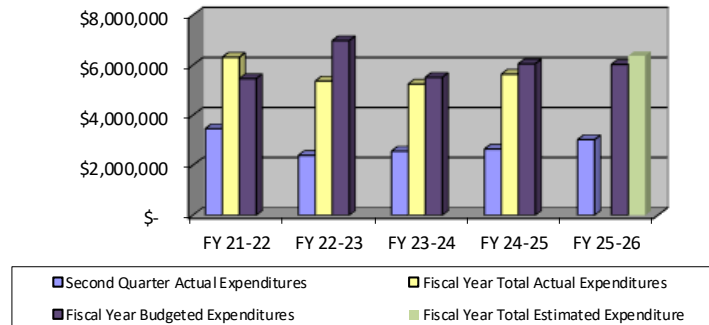
	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Second Quarter Actual Expenditures	\$ 2,583,281	\$ 2,435,224	\$ 3,144,181	\$ 3,161,963	\$ 3,367,328
Fiscal Year Total Actual Expenditures	\$ 5,441,605	\$ 5,302,277	\$ 5,877,879	\$ 6,428,009	\$ 7,245,452
Fiscal Year Total Estimated Expenditure					\$ 7,245,452
Fiscal Year Budgeted Expenditures	\$ 5,965,801	\$ 5,759,393	\$ 6,506,131	\$ 7,906,038	\$ 8,308,150
Second Quarter Percentage of Total	47%	46%	53%	40%	41%
Recommended Budget Revision					\$ 58,993
YOY Percentage Changes	27.75%	-2.56%	10.86%	9.36%	12.72%
5-year Average Percentage Change					11.62%

Community Development Services

The Community Development Department works with elected and appointed officials, other Departments, and the community to guide the physical growth, development, and preservation of the Town.

Community Development program expenditures are trending higher than the same quarter in the prior year due to increased development activities in the Building and Pass-Through programs. The Pass-Through program collects developer deposits for various review services, which are provided through consultants and paid from the applicant's account. At the close of a project, any remaining fees are refunded to the applicant, making these transactions net neutral for the General Fund balance. Staff recommends a \$615,500 increase in the development pass-through budget for activities anticipated during the fiscal year. In addition, staff recommends an expenditure budget increase of \$7,500 to cover additional special noticing requirements, a \$75,000 budget decrease for contract planner services to reflect the reduced need for external support in a fully staffed department, and a \$45,000 budget decrease for contract building inspection services to align with current inspection activity. A further \$45,000 reduction in the budget for contract building inspection services is recommended to align with current inspection activity. Additional details on all the requested items are provided in the Budget Adjustments section of this report. Staff will continue to monitor this program and request further adjustments, if necessary, before the end of the fiscal year.

**Community Development - Quarterly and Annual Expenditures
5-Year History**



	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Second Quarter Actual Expenditures	\$ 3,460,301	\$ 2,394,537	\$ 2,559,684	\$ 2,646,092	\$ 3,020,911
Fiscal Year Total Actual Expenditures	\$ 6,313,505	\$ 5,365,410	\$ 5,246,729	\$ 5,637,743	\$ 6,368,565
Fiscal Year Total Estimated Expenditure					\$ 6,368,565
Fiscal Year Budgeted Expenditures	\$ 5,461,716	\$ 6,978,617	\$ 5,509,853	\$ 6,050,448	\$ 6,027,635
Second Quarter Percentage of Total	55%	45%	49%	44%	50%
Recommended Budget Revision					\$ 577,500

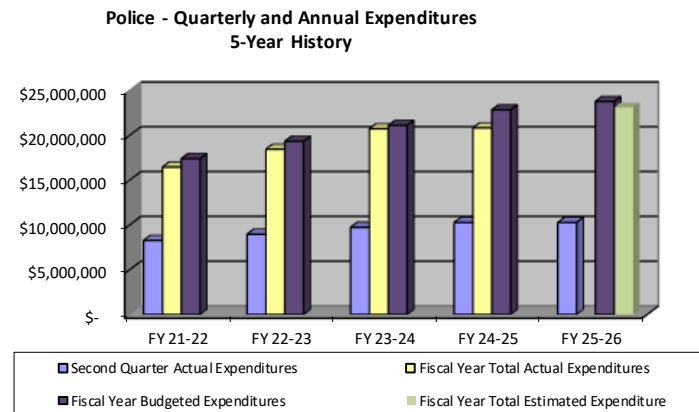
YOY Percentage Changes	27.50%	-15.02%	-2.21%	7.45%	12.96%
5-year Average Percentage Change					6.14%

Community Development Department expenditures vary year to year based on the development activity and pass-through services.

Police Services

The Los Gatos-Monte Sereno Police Department provides Police services to the Town of Los Gatos and contractually to the City of Monte Sereno. The Department is committed to ensuring public safety with integrity, compassion, and professionalism, by providing exceptional law enforcement services, building community partnerships, and engaging the community in problem solving.

Staff continues to monitor Police Services program revenues and expenditures. The Police Department has dedicated additional resources to ongoing recruitment efforts for open positions. Whenever feasible, vacancies are temporarily filled with trainees, per diem staff, and temporary employees until permanent hires are made, which has contributed to increased costs. Staff recommends an expenditure budget increase of \$75,000 for consultation services on police operations, a \$15,000 increase for additional drug testing costs, and a \$3,370 grant revenue adjustment to align actual grant spending with receipts across fiscal years. Despite these adjustments, total estimated expenditures are trending lower than budget due to partial vacancies throughout the Department. Staff will continue to monitor this program and may request additional budget adjustments, if necessary, before the end of the fiscal year.



	<u>FY 21-22</u>	<u>FY 22-23</u>	<u>FY 23-24</u>	<u>FY 24-25</u>	<u>FY 25-26</u>
Second Quarter Actual Expenditures	\$ 8,266,432	\$ 8,957,541	\$ 9,732,572	\$ 10,269,947	\$ 10,268,293
Fiscal Year Total Actual Expenditures	\$ 16,451,189	\$ 18,446,040	\$ 20,718,871	\$ 20,827,880	
Fiscal Year Total Estimated Expenditure					\$ 23,095,918
Fiscal Year Budgeted Expenditures	\$ 17,390,969	\$ 19,331,331	\$ 21,107,570	\$ 22,832,439	\$ 23,768,536
Second Quarter Percentage of Total	50%	49%	47%	45%	43%
Recommended Budget Revision					\$ 93,370
YOY Percentage Changes	9.13%	12.13%	12.32%	0.53%	10.89%
5-year Average Percentage Change					9.00%

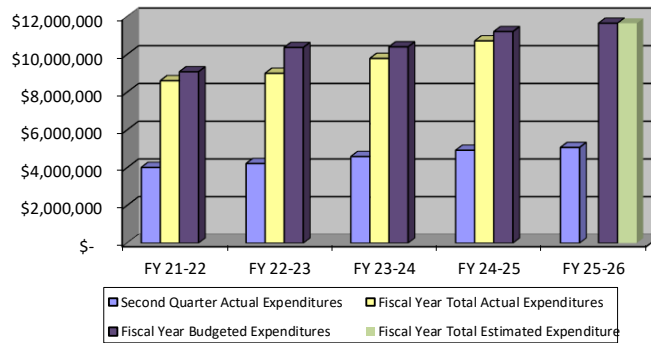
*GASB 96 Subscription-Based Information Technology Arrangement Adjustments, Capital Outlay not included

Parks and Public Works Services

The Parks and Public Works Department constructs and maintains the Town's public parks, facilities, roadways, right-of-way, and other infrastructure. Six organizational units work in coordination to achieve the Department's overarching goal of ensuring the Town's facilities are safe, functional, and attractive.

Parks and Public Works Services program expenditures are currently trending at 43% of the adopted budget. Staff recommends an expenditure budget increase of \$200,755, primarily due to additional contractual obligations related to waste management, traffic signalization, tree pruning, and various miscellaneous and safety repair services. Staff will continue to monitor this program and may request further budget adjustments, if necessary, before the end of the fiscal year.

**Parks and Public Works - Quarterly and Annual Expenditures
5-Year History**



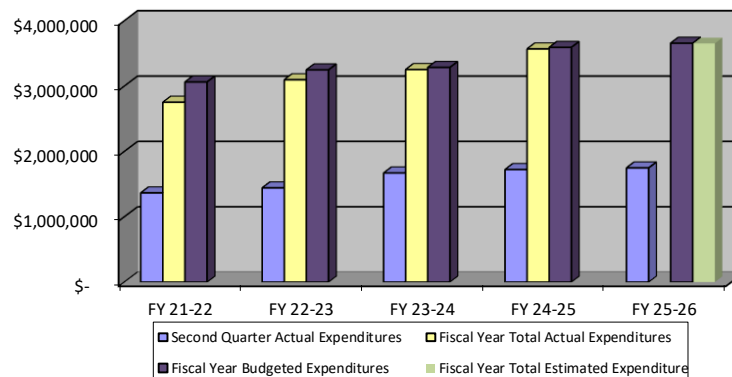
	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Second Quarter Actual Expenditures	\$ 4,010,181	\$ 4,215,979	\$ 4,589,535	\$ 4,920,014	\$ 5,068,319
Fiscal Year Total Actual Expenditures	\$ 8,605,455	\$ 8,998,082	\$ 9,789,656	\$ 10,717,232	\$ 11,649,244
Fiscal Year Total Estimated Expenditure					\$ 11,649,244
Fiscal Year Budgeted Expenditures	\$ 9,080,662	\$ 10,368,194	\$ 10,401,796	\$ 11,210,621	\$ 11,653,693
Second Quarter Percentage of Total	47%	47%	47%	44%	43%
Recommended Budget Revision					\$ 200,755
YOY Percentage Changes	7.39%	4.56%	8.80%	9.48%	8.70%
5-year Average Percentage Change					7.78%

Library Services

The Los Gatos Library fosters curiosity and community connection and strives to be at the heart of an engaged and vibrant community.

Library services program expenditures are trending similarly to prior-year same-quarter expenditures. Total estimated expenditures are also trending slightly below budget. Staff will monitor this program and request an additional budget adjustment, if necessary, before the fiscal year end.

**Library - Quarterly and Annual Expenditures
5-Year History**



	FY 21-22	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Second Quarter Actual Expenditures	\$ 1,365,415	\$ 1,442,417	\$ 1,669,629	\$ 1,722,056	\$ 1,747,675
Fiscal Year Total Actual Expenditures	\$ 2,752,401	\$ 3,096,485	\$ 3,253,389	\$ 3,568,498	\$ 3,652,651
Fiscal Year Total Estimated Expenditure					\$ 3,652,651
Fiscal Year Budgeted Expenditures	\$ 3,062,708	\$ 3,247,731	\$ 3,285,841	\$ 3,591,990	\$ 3,655,823
Second Quarter Percentage of Total	50%	47%	51%	48%	48%
Recommended Budget Revision					\$ -
YOY Percentage Changes	9.40%	12.50%	5.07%	9.69%	2.36%
5-year Average Percentage Change					7.80%

FY 2025-26 RECOMMENDED BUDGET ADJUSTMENTS

Budget adjustments are recommended for the following revenues and expenditures at the second quarter as described below:

SUMMARY OF BUDGET ADJUSTMENTS BY FUND AND DEPARTMENT		
General Fund	Expenditures	Revenues
Town Attorney	\$ 100,000	\$ -
Administrative Services	\$ 153,305	\$ 472,995
Community Development	\$ 502,500	\$ 1,527,500
Police	\$ 93,370	\$ 36,892
Parks and Public Works	\$ 200,775	\$ 143,472
Library	\$ -	\$ 6,495
Townwide/Non-Departmental	\$ 300,191	\$ 1,394,534
TOTAL GENERAL FUND	\$ 1,350,141	\$ 3,581,888
All Other Funds	Expenditures	Revenues
Special Revenue	\$ 1,328	\$ 4,000
Capital Project	\$ 559,564	
Internal Service	\$ (1,816,453)	\$ (100,000)
TOTAL ALL OTHER FUNDS	\$ (1,255,561)	\$ (96,000)
TOTAL ALL FUNDS	\$ 94,580	\$ 3,485,888

Detailed Budget Adjustments

FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Program Account

1201	411**	Property Tax	\$ 68,164	Based on Santa Clara County Property Tax Estimates February 2026
1201	41141	Motor Vehicle In Lieu Fee (VLF)	28,672	Based on Santa Clara County Property Tax Estimates February 2026
1201	41211	Sales & Use Tax	1,207,436	Based on HdL Sales Tax Estimate January 2026
1221	41214	Measure G - District Sales Tax	30,175	Based on HdL Sales Tax Estimate January 2026
1201	41311	Transient Occupancy Tax	(166,585)	Based on Past Receipts and Current Trend
1201	41611	Cable Franchise Fee	(95,772)	Based on Past Receipts and Current Trend
1201	42542	PG&E Franchise Fee	60,880	Based on Past Receipts and Current Trend
1201	42212	Credit Card Convenience Fee	9,410	Based on Past Receipts and Current Trend
2101	43513	SCC Unhoused Services Grant	(54,696)	Funds Received and Spent in Prior Fiscal Year
2106	44316	Leadership Los Gatos	6,850	Based on Current Enrollment
1232	45964	Pension Trust Contribution	300,000	Funds Anticipated from Available Reserves
2301	4***	Interest	345,487	Funds partially Received
2301	41411	Business License Tax	107,508	Funds Anticipated
2301	42321	Business License Processing Fee	20,000	Funds Anticipated

FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Program	Account			
3201	42413	Planning Permits	235,000	Funds Anticipated
3201	44214	Other Planning Service Fees	20,000	Funds Anticipated
3202	44414	Plan Check Planning	35,000	Funds Anticipated
3301	42411	Building Permit Fees	220,000	Funds Anticipated
3301	42412	Title 24 Fee	40,000	Funds Anticipated
3301	44415	Address Processing Fee	40,000	Funds Anticipated
3301	44421	Plan Check Building	350,000	Funds Anticipated
3301	44422	Building Inspections	(45,000)	Funds are not Received, Matching Expenditures
3301	44625	NPDES inspections	20,000	Funds Anticipated
3401	45111	Code Compliance - Admin Citation	(3,000)	Funds are not Received
3999	48411	Environmental Impact - Pass Through Services	400,000	Funds Anticipated
3999	48412	Architect Review- Pass Through Services	30,000	Funds Anticipated
3999	48413	Arborist Review - Pass Through Services	80,000	Funds Anticipated
3999	48415	Transcription - Pass Through Services	2,000	Funds Anticipated
3999	48418	Water Efficiency Review - Pass Through Services	50,000	Funds Anticipated
3999	48426	Building Standard - Pass Through Services	3,500	Funds Anticipated
3999	48428	Video Rendering - Pass Through Services	30,000	Funds Anticipated
3999	48434	SMIP @ 95%	20,000	Funds Anticipated
4202	43336	Prop 172 - Public Safety Sales Tax	(7,715)	Based on HdL January 2026 Sales Tax Estimates
4301	44213	Special Event Reimbursement	11,062	Funds Received
4301	48218	Measure G - District Sales Tax	30,175	Funds Anticipated, Matching Tracking Expenditures
4816	45813	BSCC Wellness Grant	3,370	Funds Anticipated, Matching Expenditure
5101	43101	Federal Emergency Management Grant - 2023 Storms	919	Funds Received
5202	44214	Other Service Fees	(33,760)	Funds are not Received
5202	44621	Engineering Services	67,000	Funds Anticipated
5202	44623	Engineering Review Surcharge	(134,731)	Funds are not Received
5202	44624	Grading Inspection	(37,000)	Funds are not Received
5202	44626	NPDES inspections	32,900	Funds Anticipated
5301	41512	Construction Tax - Capital Parks	10,781	Funds Received
5301	42515	Tree Removal Permit	180,000	Funds Anticipated

FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Program	Account			
5301	43101	Federal Emergency Management Grant - 2023 Storms	4,100	<i>Funds Received</i>
5301	43531	PLAN JPA Safety and Risk Management	12,206	<i>Funds Received</i>
5301	45421	Benches	(500)	<i>Funds are not Received, Matching Expenditures</i>
5302	42522	HHW Solid Waste Fee	14,959	<i>Funds are Anticipates, Matching Tracking Expenditures</i>
5405	45922	Insurance Claim Reimbursement	26,598	<i>Funds are Received</i>
7204	45930	Public Library Fund Grant	6,495	<i>Grant Reimbursement Received</i>
TOTAL GENERAL FUND REVENUES			\$ 3,581,888	

FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Program	Account	General Fund Expenditures		
1201	62113	Town Share of Retiree Medical Additional Payment to IRS Pension	\$ 48,606	<i>Funds are Partially Expended</i>
1201	62119	Trust	300,000	<i>From Available Reserve</i>
1201	62227	Credit Card Merchant Fee Los Gatos Chamber Contract is	9,410	<i>Funds are Expended, Matching Revenue</i>
1201	67102	Budgeted in Economic Vitality Program	(88,000)	<i>Funds are not Expended</i>
2101	67229	SCC Unhouse Services Grant	(54,307)	<i>Funds Received and Spent in Prior Fiscal Year</i>
2106	62434	Leadership Los Gatos	4,300	<i>Funds are Partially Expended, Based on Current Enrollment</i>
2106	62435	Road Closures	(11,000)	<i>Funds are not Expended</i>
1221	68218	Measure G Sales Tax - Pass Thru	30,175	<i>Funds are Partially Expended, Matching Revenue</i>
1301	63215	Legal Services	100,000	<i>Funds are not Expended</i>
2301	5****	Salaries and Benefits	194,312	<i>Funds are Partially Expended</i>
2301	62335	Business License Processing Fee	20,000	<i>Funds are Partially Expended, Matching Revenue</i>
3201	61114	Postage	2,500	<i>Funds are Partially Expended</i>
3201	62318	Contract Employee Services	(75,000)	<i>Funds are not Expended</i>
3201	62310	Transcript Services	(2,500)	<i>Funds are not Expended</i>
3201	62311	Special Noticing	5,000	<i>Funds are Partially Expended</i>
3301	63381	Building Inspections	(45,000)	<i>Funds are not Expended</i>

FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - GENERAL FUND

Program	Account	General Fund Expenditures		
3301	64111	Employee Training	2,000	Funds are Partially Expended
3999	68411	Environmental Impact - Pass Through Services	400,000	Funds are Partially Expended
3999	68412	Architect Review- Pass Through Services	30,000	Funds are Partially Expended
3999	68413	Arborist Review - Pass Through Services	80,000	Funds are Partially Expended
3999	68415	Transcription - Pass Through Services	2,000	Funds are Partially Expended
3999	68419	Water Efficiency Review - Pass Through Services	50,000	Funds are Partially Expended
3999	68424	SMIP @ 95% - Pass Through Services	20,000	Funds are Partially Expended
3999	68426	Building Standard @ 90% - Pass Through Services	3,500	Funds are Partially Expended
3999	68428	Video Rendering - Pass Through Services	30,000	Funds are Partially Expended
4101	64212	Org Development - Police Services Study	75,000	Funds are not Expended
4303	63322	Drug Testing Services	15,000	Funds are Partially Expended
4816	68513	BSCC Wellness Grant	3,370	Funds are Expended, Matching Revenue
5301	61234	Playground Safety Parts and Equipment	12,206	Funds are Expended, Matching Revenue
5301	62378	Miscellaneous Services and Repairs	82,110	Funds are not Expended
5301	63332	Software Annual Support	1,000	Funds are Partially Expended
5301	68622	Benches	(500)	Funds are not Received, Matching Tracking Expenditures
5302	63121	SCC- Household Waste Fee	14,959	Funds are Partially Expended, Matching Revenue
5401	62354	Tree Pruning Services	51,000	Funds are not Expended
5401	63364	Traffic Signalization	40,000	Funds are not Expended

TOTAL GENERAL FUND EXPENDITURES \$ 1,350,141

FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Account	Other Fund Revenues		
261				
7301		Library Trust		
	45411	Donation	\$ 4,000	Additional Donation Received
			\$ 4,000	
633				
5423		Facilities Maintenance		

45313	Los Gatos Saratoga Recreation District	\$ (100,000)	Funds are not Received - Rent Abatement
		<u>\$ (100,000)</u>	

TOTAL OTHER FUNDS REVENUES	\$ (96,000)
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FY 2025-26 MID-YEAR BUDGET ADJUSTMENT REQUESTS - OTHER FUNDS

Fund	Account	Other Fund Expenditures		
411		GFAR		
4118104	82405	Use of Excess VRF Reserves including Interest	\$ 70,462	Funds are not Expended
4118414	82405	Sport Court Resurfacing	50,000	Funds are not Expended
4118741	82405	Auto Gate Replacements	1,602	Funds are not Expended
			<u>\$ 122,064</u>	
412		GFAR - Interim Community Center		
4128736	82405	Interim Community Center	437,500	
			<u>\$ 437,500</u>	
631				
5404		Equipment Replacement		
	8****	Equipment Replacement	\$ (1,846,453)	Funds are not Expended
			<u>\$ (1,846,453)</u>	
633		Facilities Maintenance		
5404	62371	Staffroom Supplies	5,000	Funds are not Expended
5404	62631	Telephone	25,000	Funds are Partially Expended
			<u>\$ 30,000</u>	
		Library Trust Fund		
7301	62420	Additional Donation Received		Funds are not Expended
7301	62424	Additional Donation Received		Funds are not Expended
231				
5501		Blackwell L&L District		
	62613	Utilities - Water	\$ 690	Funds are Partially Expended
			<u>\$ 690</u>	
232				
5502		Kennedy Meadows L&L District		
	62613	Utilities - Water	\$ 638	Funds are Partially Expended
			<u>\$ 638</u>	
TOTAL OTHER FUNDS EXPENDITURES			\$ (1,255,561)	

SUMMARY OF RECOMMENDED BUDGET ADJUSTMENTS

- General Property Tax and Motor Vehicle in Lieu Fee: Staff recommends a increase in projected revenues of approximately \$68,164 in General Property Tax and an increase of \$28,672 Motor Vehicle in Lieu fee which are in line with the estimates and forecasts provided to the Town from Santa Clara County.
- Sales and Use Tax: Staff recommends a \$1,200,919 revenue budget increase to reflect current sales tax trends and new businesses based on HdL' current projections.
- Measure G – District Sales Tax: Staff recommends a \$30,175 revenue budget increase to reflect the current trends of the one-eight cent sales tax based on HdL' projections and the matching \$30,175 pass through revenue and expenditure budget adjustments to track the Measure G allocation.
- Transient Occupancy Tax (TOT): Staff recommends a decrease in projected revenues by \$166,585 in TOT fee based on current collection trend.
- Cable Franchise Fee: Staff recommends a decrease in projected revenues of \$95,722 in cable franchise fee based on current collection trend.
- PG&E Franchise Fee: Staff recommends an increase in projected revenues by \$60,880 in PG&E franchise fee based on current collection trend.
- Credit Card Convenience Fee: Staff recommends a \$9,410 revenue and expenditure budget increase based on the current convenience fees collected by the Town, with matching expenditures for third-party credit card processing services.
- Unhoused Service Grant: Staff recommends a decrease in projected revenues and expenditures in the amount of \$54,696, as a multi-year grant previously expected to extend into FY 2025–26 concluded in the prior fiscal year.
- Leadership Los Gatos: Staff recommends a \$6,850 revenue budget increase and a \$4,300 expenditure budget increase for the Leadership Los Gatos Program to reflect current participation levels and additional associated program expenses.
- IRS Pension Trust: Staff recommends a revenue and expenditure budget increase of \$300,000 to make an additional payment to the IRS Pension Trust from the available Pension/OPEB Reserve.
- Interest: Staff recommends a \$345,487 revenue budget increase based on anticipated interest collection during this fiscal year.
- Business License Tax: Staff recommends a \$107,508 revenue budget increase based on current trend and HdL's, the Town business license consultant's projection.

- Planning Permits, Plan Check and Other Planning Services Fees: Staff recommends a \$390,000 revenue budget increase to reflect increased planning application activities based on current and anticipated receipts.
- Building Permits and Related Activities: Staff recommends a \$625,000 revenue budget increase based on the current and anticipated receipts collections.
- Development Application – Pass Through Services: Staff recommends \$615,000 revenue expenditure budget increase based on the current development activity.
- Prop 172 – Public Safety Sales Tax: Staff recommends a \$7,715 revenue budget decrease to reflect the current trends of the tax based on Hdl’s current projections.
- Special Event Reimbursement: Staff recommends a \$11,062 revenue budget increase based on the current receipts collected for Police Services at special events.
- Police Operating Grant: Staff recommend \$3,370 revenue and expenditure budget increases based on the use of deferred grant receipts.
- FEMA Reimbursement: Staff recommends a \$5,019 revenue budget increase to recognize current year reimbursement proceeds for the 2023 storm.
- Engineering Permits and Related Activities: Staff recommends a \$105,591 revenue budget decrease to reflect decreased engineering application activities based on current and anticipated receipts.
- Park Construction Tax: Staff recommends a \$10,781 revenue budget increase based on the current receipts collected.
- Tree Removal Permit: Staff recommends a \$180,000 revenue budget increase based on the current receipts collected.
- Plan JPA – Safety Risk Management: Staff recommends a \$12,206 revenue and expenditure budget increase to reflect the current PlanJPA grant receipt and associated spending for playground safety upgrades.
- HHW Solid Waste Fee: Staff recommends a \$14,959 revenue and expenditure budget adjustment to reflect the current costs paid to Santa Clara County. These fees are reimbursed through the Solid Waste Joint Powers Authority (JPA).
- Benches: Staff recommends a \$500 revenue and expenditure budget decrease due to the decision not to launch the Memorial Bench Program before the end of this fiscal year.
- Insurance Claim Reimbursement: Staff recommends a \$16,818 revenue budget increase to recognize the reimbursement received for property damage.

- Library Operating Grants: Staff recommends a \$6,495 revenue budget increase to recognize reimbursement collected in the current year for prior-year grant expenditures.
- Retire Medical: Staff recommends a \$48,606 expenditure budget increase based on current estimates.
- Los Gatos Chamber of Commerce Contract: Staff recommends an \$88,000 expenditure budget decrease because management of the contract has been transferred to the newly established Economic Community Vitality Program. The expenditures were erroneously included in both the legacy program and the new program, resulting in duplication.
- Legal Services Support: Staff recommends a \$100,000 expenditure budget increase to provide additional legal support for the Town Attorney.
- Salaries and Benefits: Staff recommends a \$194,312 expenditure budget increase related to the Director transition in the Finance Department. A portion of this increased cost will be offset by a reversal in the Town's Compensated Absences Reserve.
- Special Noticing and Postage: Staff recommends a \$7,500 expenditure budget increase for a increased cost related the change in the special noticing requirement.
- Transcription Services: Staff recommends a \$2,500 expenditure budget decrease for transcription services based on the current trend.
- Contract Employee Services: Staff recommends a \$75,000 expenditure budget decrease for contract planning employee services, since the full budgeted amount will not be utilized in the current fiscal year.
- Building Inspection Services: Staff recommends a \$45,000 expenditure budget decrease for contract building inspection services, since the full budgeted amount will not be utilized in the current fiscal year.
- Building Program Training: Staff recommends a \$2,000 expenditure budget increase for staff training.
- Police Service Study: Staff recommends a \$75,000 expenditure budget increase to consult with Meliora on Police operations and services.
- Drug Testing Services: Staff recommends a \$15,000 expenditure budget increase due to rising costs in Drug Testing Services. The expenditures associated with the Police Department's Blood Draw Service, and its frequency, have increased during FY 2025–26. In response to these overages, the Police Department has reallocated funds from other areas within its budget on two separate occasions.
- Miscellaneous Services and Repairs: Staff recommends an increase in projected expenditures for miscellaneous park services and repairs of \$82,110 to address playground inspection outcomes

(\$30,000), Blossom Hill Park lighting improvements (\$20,000), and Town Plaza holiday tree and park lighting improvements (\$32,110).

- Software Annual Support: Staff recommends an increase in projected expenditures for Park Services reservation software of \$1,000 to implement a reservation system for tennis and pickleball reservations.
- Tree Pruning Services: Staff recommends an increase in projected expenditures of \$51,000 for emergency tree services.
- Traffic Signalization: Staff recommends a \$40,000 expenditure budget increase for increased cost for traffic signalization.

Other Fund Revenues and Expenditures

- Library Trust Fund: Staff recommends a \$4,000 revenue budget increase to recognize an increase in donations.
- Facilities Maintenance Fund - Revenue: Staff recommends a decrease in projected revenues of \$100,000 for the Facilities Maintenance Program based on the current agreement terms with the Los Gatos Saratoga Recreation Center.
- GFAR Project Costs: Staff recommends a \$70,642 expenditure budget increase to use available excess Vehicle Registration Fund reserves and a \$1,602 expenditure budget increase to the Auto Gate Replacement Project.
- Sport Park Court Resurfacing: Staff recommends an increase in projected expenditure of \$50,000 for sound mitigation at La Rinconada Park based on the service quotes from vendors. Upon further assessment of court conditions, additional sound netting is recommended than was originally proposed. The additional funds will support this additional material cost and associated installation. Project bidding is scheduled for February 6, 2026, with work planned for April 2026.
- Interim Community Center: Staff recommends moving the Adult Recreation Center Interim Community Center Project from Tier 2 to Tier 1 status and an associated increased expenditure projection of \$437,500 for various improvements, including mold abatement, replacement of select windows, and roof replacement. This work will address aging building infrastructure.
- Equipment Replacement: Staff recommends a \$1,846,453 expenditure budget decrease for the Equipment Replacement Fund. In May 2025, one of the Council's directions to staff was to review the equipment replacement list. Staff have begun this analysis and identified items that can be deferred from replacement in the current fiscal year. As a result, the staff recommends reducing the current equipment replacement budget. During the development of the FY 2026–27 budget, staff will continue to reevaluate all items on the list and either remove them from the replacement schedule or move them to their planned replacement year.

- Facilities Maintenance: Staff recommends a \$30,000 expenditure budget increase for increased telephone services (\$25,000) and increased cost of staffroom supplies (\$5,000).
- Blackwell L&L District: Staff recommends a \$690 expenditure budget increase for increased water utility costs.
- Kennedy Meadows L&L District: Staff recommends a \$638 expenditure budget increase for increased water utility costs.

FINANCIAL SUMMARIES OF OTHER FUNDS

The group of financial summaries on the following pages present data by governmental, proprietary, and fiduciary fund types. For each, the fund information starts with a beginning fund balance, adds current year revenues, and subtracts current year expenditures, resulting in an ending fund balance. Adopted budget amounts are provided as a basis for comparison of actuals to date.

Special Revenue Funds (Governmental Fund Type)

Special Revenue Funds are used to account for revenues that are legally restricted or designated for specific purposes. The Town's Special Revenue Funds include the Community Development Block Grant Fund, Housing Conservation Program Fund, Urban Runoff Source Fund (Non-Point Source), several Landscaping and Lighting District (LLD) Funds, the Theatre Fund, and Library Trust Funds. Staff recommends increasing the revenue budget by \$4,000 to reflect additional donations to the Library Trust Fund. Additionally, an increase of \$1,328 in the expenditure budget is recommended to cover higher water utility costs for the Kennedy Meadows and Blackwell Landscaping and Lighting Districts.

Special Revenue Funds Budget to Actuals Comparisons

	CDBG Grants	Non-Point Source	LLD's	THEATRE	LIBRARY TRUSTS
Beginning Fund Balance	\$ 166,653	\$ 664,168	\$ 193,606	\$ 381,122	\$ 559,744
Budgeted Revenues	-	163,690	39,230	121,100	79,400
Total Actual Revenues - 2nd Qtr	\$ -	\$ 68,204	\$ -	\$ 90,420	\$ 70,230
Budgeted Expenditures	-	221,318	40,400	55,814	82,000
Total Actual Expenditures - 2nd Qtr	-	70,277	12,588	28,747	22,778
2nd Quarter Ending Fund Balance	\$ 166,653	\$ 662,095	\$ 181,018	\$ 442,795	\$ 607,196

Capital Projects Funds (Governmental Fund Type)

Capital Projects Funds account for resources used for the acquisition and construction of capital facilities by the Town. These funds include the General Fund Appropriated Reserve (GFAR) Fund, Community Center Fund, Traffic Mitigation Fund, Grant-Funded CIP Projects Fund, Utility Underground Fund, Gas Tax Fund, and three Storm Drain Funds. Staff recommends reopening the Tier 2 Interim Community Center Project with a budget of \$437,500, increasing the Sport Court Resurfacing Project budget by \$50,000, and making expenditure budget adjustments of \$70,462 to utilize excess Vehicle Registration Fee reserves for additional street work. Additionally, staff recommends a \$1,602 expenditure adjustment for the Auto Gate Replacement Project. The Grant-Funded CIP Fund currently reflects a deficit balance because grant-funded projects require the Town to expend its own dollars first and then submit documentation to the State of California or other granting agencies for reimbursement. These reimbursements ultimately result in the fund breaking even with a zero balance.

Capital Project Funds Budget to Actuals Comparisons

	GFAR*	Community Center Development	Traffic *	Grant Funds*	Storm Drains	Utility Undergd	Gas Tax
	Fund		Mitigation	CIP			
Beginning Fund Balance	\$ 16,974,945	\$ 819,604	\$ 676,481	\$ (1,577,430)	\$ 2,825,234	\$ 3,763,913	\$ 2,130,548
Budgeted Revenues	4,367,396	-	-	10,053,709	153,242	45,870	1,822,989
Total Actual Revenues - 2nd Qtr	2,507,708	-	-	1,401,539	162,657	8,848	718,471
Budgeted Expenditures	16,844,699	-	10,000	6,198,983	1,880,615	-	3,463,170
Total Actual Expenditures - 2nd Qtr	1,515,679	-	-	542,700	135,675	-	930,650
2nd Quarter Ending Fund Balance	\$ 17,966,974	\$ 819,604	\$ 676,481	\$ (718,591)	\$ 2,852,216	\$ 3,772,761	\$ 1,918,369

* GFAR, Community Center Development, Traffic Mitigation, and Grant Funds balances are combined in the FY 2025 ACFR. The combined balance of \$16,893,600 is presented as an Appropriated Reserve.

Internal Service Funds (Proprietary Fund Type)

Internal Service Funds are used to finance and account for specialized activities and services provided by designated Town departments to other Town departments on a cost-reimbursement basis. These funds include the Equipment Replacement Fund, Workers' Compensation Fund, Liability Self-Insurance Fund, Information Technology Fund, and Facilities Maintenance Fund.

The Self-Insurance Fund currently reflects a deficit balance because insurance premiums are paid at the beginning of the fiscal year, while departmental reimbursements are recorded on a bi-monthly basis. Additionally, higher premium rates and increased claim activity required the Town to raise its Liability Internal Service charges in the FY 2025–26 budget. Staff continues to monitor insurance costs and is implementing a change to the Town's liability insurance policy effective July 1, 2026, which is expected to generate potential savings. Furthermore, staff recommends reducing the revenue budget for the Facility Maintenance Program by \$100,000 to account for the rent abatement provided to the Recreation Center, and increasing the expenditure budgets for telephone line services needed for resiliency by \$25,000 and for staff room supplies by \$5,000. In May 2025, one of the Council's directions to staff was to review the equipment replacement list. Staff have begun this analysis and identified items that can be deferred from replacement in the current fiscal year. As a result, the staff recommends reducing the current equipment replacement budget by \$1,846,453. During the development of the FY 2026–27 budget, staff will continue to reevaluate all items on the list and either remove them from the replacement schedule or move them to their planned replacement year.

Internal Service Funds Budget to Actuals Comparisons					
	Equipment Replacemt	Workers Compensation	Self Insurance	Information Technology	Facility Maint.
Beginning Fund Balance	\$ 3,890,429	\$ 1,259,972	\$ 208,747	\$ 2,585,104	\$ 820,099
Budgeted Revenues	1,187,544	1,901,696	1,825,348	954,554	1,519,570
Total Actual Revenues - 2nd Qtr	583,772	999,555	840,773	395,714	690,616
Budgeted Expenditures	2,280,123	1,846,050	1,758,736	1,593,457	1,419,567
Total Actual Expenditures - 2nd Qtr	163,833	896,072	1,567,792	627,572	682,757
2nd Quarter Ending Fund Balance	\$ 4,310,368	\$ 1,363,455	\$ (518,272)	\$ 2,353,246	\$ 827,958
	7%	49%	89%	39%	48%

Trust and Agency Funds (Fiduciary Fund Type)

AB1x26 is the “Dissolution Bill” that eliminated the Town’s Redevelopment Agency effective February 1, 2012. AB 1484 is the “clean-up” bill that revised and attempted to clarify AB1x26. In accordance with the law, the Successor Agency continues to wind down the affairs and operations of the former Redevelopment Agency by implementing programs and activities in accordance with the State-approved Recognized Obligation payment Schedule (ROPS). The Successor Agency monies are now accounted for in a Private Purpose Trust fund and no longer part of the Town’s Financial Statements. The fund balance reported is the actual fund balance that incorporates the full accrual of long-term debt related to the outstanding bonds payable to the 2002 and 2010 Certificates of Participation. The approved ROPS schedule includes full funding for this debt obligation.

Trust & Agency Fund Budget to Actuals Comparisons

		SA Trust
Beginning Fund Balance	\$	(3,037,145)
Budgeted Revenues		3,923,926
Total Actual Revenues - 2nd Qtr		-
Budgeted Expenditures		3,817,112
Total Actual Expenditures - 2nd Qtr		1,743,541
2nd Quarter Ending Fund Balance	\$	(4,780,686)

Conclusion

Overall, the Town is well positioned to end the fiscal year in a positive. The recommended adjustments included in the Mid-Year Financial Report to increase estimated revenues across all funds by \$3.5M and to decrease budgeted appropriations by \$.09M.