



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 05/11/2026

ITEM NO: 6

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DATE: May 7, 2026  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: Continue to Review, Discuss, and Make Recommendations on the Preliminary Proposed FY 2026-27 Operating and Capital Budget

**RECOMMENDATION:**

1. Continue to discuss, comment, and finalize recommendations to the Town Council regarding the Proposed FY 2026-27 Operating and Capital Summary Budget.
2. Provide final written recommendations on the proposed use of Measure G funds.

**FISCAL IMPACT:**

There is no direct fiscal impact from the Finance Commission's review and recommendation action. However, the recommendations under discussion may affect the FY 2026-27 Operating and Capital Budget, including the proposed use of Measure G funds, Internal Service Fund charges, CalPERS Additional Discretionary Payments, and related General Fund impacts. Any budget changes recommended by the Finance Commission will be considered by staff, and if recommended, would require Town Council approval through the budget adoption process.

**BACKGROUND:**

With the passage of Measure A, the Finance Commission has been tasked with several mandated duties as described in the provisions of the adopted Ordinance. Section 2.50.225. – Duties state that:

(a) The Finance Commission shall:

- (2) Review the Town Manager's annual proposed budget prepared in accordance with section 2.30.295(6) of the Town Code and provide written comments and recommendations to the Town Council.

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

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Reviewed by: Town Manager and Town Attorney

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- (A) The Finance Commission's comments and recommendations shall include a recommendation about whether the Town Council should approve or disapprove the proposed budget. The Finance Commission may make a recommendation of approval of the budget conditional upon the Town Council's acceptance of one or more of the Finance Commission's recommendations.
- (B) The Town Manager must provide a proposed budget to the Finance Commission at least twenty (20) business days before the first meeting at which the proposed budget is considered by the Town Council.

DISCUSSION:

On April 20, 2026, the Proposed FY 2026-27 Operating and Capital Budgets were posted to the Town's website, and the links (listed below) were provided to the Finance Commission. Per Measure A, the Finance Commission received the Proposed Budgets 21 business days before May 19, 2026, the first meeting at which the Town Council will consider the Proposed Budgets.

Proposed Operating Budget:

<https://www.losgatosca.gov/3067/Proposed-FY-2026-27-Operating-Budget>

CIP Budget:

<https://www.losgatosca.gov/3068/Proposed-FY-2026-27-Capital-Budget>

Pursuant to Municipal Code Section 2.50.225(a)(6), the Finance Commission shall review proposed expenditures and advise the Town Council whether such expenditures meet the Town Council's objective for the Measure G tax. In the FY 2026-27, all Measure G proceeds are allocated to support public safety operations. This approach supports the following Measure G objectives: (a) maintaining and enhancing neighborhood police patrols and local crime prevention programs, and (d) maintaining the Town's long-term financial stability. Staff requests the Finance Commission's review and recommendation regarding the proposed allocation of Measure G funds.

At its special meeting on April 27, 2026, the Finance Commission received a comprehensive review of the operating and capital budget, and the Commission identified two areas requiring additional information and one recommendation for the Commission's consideration. The Commission requested additional information on historic overtime costs and how changes to the fixed asset policy have impacted Town finances. A recommendation was made to consider adding resources for capital project management. Additional information was requested on overtime and changes to the fixed asset policy.

The May 4, 2026, Finance Commission staff report included the additional information that was requested at the April 27<sup>th</sup> meeting. Additionally, prior to and at the May 4<sup>th</sup> Commission meeting, more information was requested of staff. Any information request received before the

meeting was provided as a desk item to the commission. At the May 4<sup>th</sup> meeting, the Commission requested a breakdown of salary increases to include both the costs of cost-of-living adjustments and step/merit increases broken out separately and to account for the \$2.8 million variance shown on page C-26 of the proposed budget document. Additionally, the Commission requested information on the timing of payments to CalPERS, and when the Town’s rates would be impacted and the final day to make a payment to have it count in a specified fiscal year.

*Comparison of Salary Cost FY 2025-26 Estimate to FY 2026-27 Proposed*

Salary and benefits variance are shown in two different ways when comparing the estimate to the proposed. On page C-9, both values for salaries show them net of salary savings. This provides an apple to apple comparison.

Salary and Benefit Categories	FY 2025-26 Estimate <sup>1</sup>	FY 2026-27 Proposed	Variance	% Variance
<b>Salaries</b>	\$23,405,209	\$24,176,333	\$771,124	3.3%
<b>Overtime</b>	1,384,604	1,457,000	72,396	5.2%
<b>CalPERS</b>	8,790,604	10,410,788	1,620,184	18.4%
<b>All Other Benefits</b>	5,349,271	6,294,481	945,210	17.7%
<b>TOTAL ALL SALARY &amp; BENEFITS</b>	<b>\$38,929,688</b>	<b>42,338,602</b>	<b>3,408,914</b>	<b>8.8%</b>
<i>Source: Page C-9 of FY 2026-27 Proposed Budget</i>				
<sup>1</sup> All Estimate values have been updated to include vacancy savings for each category				

In this view, salaries increase by \$771,124 or 3.3% in FY 2026-27. Below is a breakdown of that increase based on step/merit progression as shown in each salary table for each employee group on the Town’s website.

Salary Increase Breakdown		\$
		Amounts
<b>Cost of Living Adjustments</b>		\$613,393
<b>Step Progression</b>		\$157,731
<b>TOTAL</b>		<b>\$771,124</b>

On page C-26, which looks at the General Fund forecast in millions. Salary savings are removed only from the FY 2025-26 Estimate view and remain for the FY 2026-27 Proposed. This results in salary costs increasing by \$2.8 million.

Salary and Benefit Categories	FY 2025-26 Estimate <sup>1</sup>	FY 2026-27 Proposed	Variance	% Variance
Salaries	\$ 23.4	\$ 26.2	\$ 2.8	12.0%
Overtime	1.4	1.5	0.1	7.1%
CalPERS	8.8	10.4	1.6	18.2%
All Other Benefits	5.3	6.3	1.0	18.9%
Salary Savings	-	(2.0)	(2.0)	N/A
<b>TOTAL ALL SALARY &amp; BENEFITS</b>	<b>\$ 38.9</b>	<b>\$ 42.4</b>	<b>\$ 3.5</b>	<b>9.0%</b>

Source: Page C-26 of FY 2026-27 Proposed Budget

<sup>1</sup> In this view salary savings are broken out as its own line item only for FY 2026-27, but in FY 2025-26 Estimate is broken out into each respective category.

The Finance Commission asked staff to break down these costs further. As you can see from the table below, the largest variance between the two is how vacancy savings are shown.

Salary Increase Breakdown	\$ Amounts (in millions)
Cost of Living Adjustments	\$0.6
Step Progression	\$.2
Vacancy Savings	\$2.0
<b>TOTAL</b>	<b>\$2.8</b>

*Potential Impacts of Reduced Internal Service Fund Charges*

Other draft recommendations included a reduction of Internal Service Fund charges by \$1.5 million in the vehicle and equipment replacement fund. Staff completed additional analysis to ensure this would not result in creating or increasing an unfunded liability for the future replacement purchases of these items. Staff believed that although this recommendation would result in an overall decrease, estimated FY 2026-27 year-end retained earnings in the fund that it would not result in unfunded liability (Attachment 1). Staff recommends that the savings garnered from this recommendation be used to increase charges for facilities and increase the retained earnings in that fund by about \$1 million, ensuring that the General Fund is balanced. Staff will present potential funding options for these dollars as a desk item for the May 11, 2026, Finance Commission Meeting.

*Additional CalPERS Additional Discretionary Payment Information*

Due to CalPERS valuation being about two years in arrears, the FY 2026-27 rates are set based on an actuarial valuation date of 6/30/2024. Payment made in FY 2026-27 would impact rates for FY 2028-29. This is because rates for FY 2028-29 are set based an actuarial valuation date of 6/30/2027. The last day to make a payment would be on or before June 30 of the fiscal year.

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SUBJECT: Proposed FY 2026-27 Operating and Capital Budget

DATE: May 4, 2026

This information was gathered via phone call from a CalPERS representative and discussion with Foster and Foster, the Town's pension actuary.

The Commission also had various draft recommendations that were sent to the Administrative Services Director and have been attached (Attachment 2) for the Commission's discussion, finalization and vote.

This meeting will conclude the Commission's discussion on the FY 2026-27 Operating and Capital Budget. The FY 2026-27 Proposed Budget Study Session is set for May 19, 2026, and the Final Budget Hearing and Adoption is set for June 2, 2026.

CONCLUSION:

Staff looks forward to the Commission's questions, discussion, comments, and recommendations.

Attachments:

1. Impacts on the Vehicle and Equipment Replacement Fund
2. Draft Commission Recommendations
3. CIP Commissioner Comments