



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 06/02/2026

ITEM NO: 10

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DATE: May 27, 2026  
TO: Mayor and Town Council  
FROM: Chris Constantin, Town Manager  
SUBJECT: **Adopt a Resolution Approving the Town of Los Gatos Fiscal Year (FY) 2026-27 Operating Budget and FY 2026-27 – 2030-2031 Capital Improvement Program (CIP); Adopt a Resolution Approving Commitment of Fund Balances under GASB 54; and Adopt a Resolution Establishing Gann Appropriation Limit, and Approve FY 2025-26 Budget Adjustments and Reclassifications**

**RECOMMENDATION:** Adopt a Resolution Approving the Town of Los Gatos Fiscal Year (FY) 2026-27 Operating Budget and FY 2026-27–2030-31 Capital Improvement Program (CIP), including new appropriations, minor corrections, and carry-forward appropriations, as presented in Attachment 1 (with Exhibit A: Total Town Revenues and Expenditures by Fund); Adopt a Resolution Approving Commitments of Fund Balances under GASB 54, as listed in Attachment 2; and Approve FY 2025-26 Year-End Budget Adjustments and Reclassifications as listed in Attachment 3; and Adopt a resolution establishing the Fiscal Year (FY) 2026-27 Gann Appropriation Limit for the Town of Los Gatos, as listed in Attachment 7.

**FISCAL IMPACT:**

Town staff recommend establishing an Operating Budget of \$78,829,640, an increase of \$3,169,258 over the FY 2026-27 Proposed budget of \$75,660,382 and an unchanged Capital Improvement Program Budget of \$6,454,919 for FY 2026-27. For a total operating and capital budget of \$85,284,559. Estimated revenues for the operating and capital budgets are \$77,555,979 and \$6,460,439, respectively, for a total of \$84,016,418. This results in an

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Administrative Services Director

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Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Administrative Services Director

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estimated use of fund balance of \$1,268,141 across both budgets. All changes are shown in Attachment 1.

Additionally, town staff are recommending changes to the FY 2025-26 estimate budget revenue reductions of \$3.4 million and expense reallocation of salary savings as necessary to ensure all programs end the year in a positive position (Attachment 3).

STRATEGIC PRIORITY:

This initiative supports the Town's 2025 to 2027 Strategic Priority to "ensure prudent financial management to result in structurally balanced five-year forecasts and fully funded five-year Capital Improvement Plans, managing liabilities such as pension costs and leveraging the Town's assets, efficiencies, partnerships, and revenue streams.

BACKGROUND:

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 Town Council and 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.

At its special meeting on April 27, 2026, the Finance Commission received a comprehensive review of the operating and capital budgets.

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 from staff. Any information request received before the meeting was provided as a desk item to the commission.

The May 11, 2026, Finance Commission reviewed staff compiled recommendations received from various Commission members and discussed and finalized those recommendations.

On May 19, 2026, the Town Council conducted a public hearing to discuss the proposed FY 2026-27 Operating and Capital Summary Budget and Proposed FY 2026-27– 2030-31 Capital Improvement Program. The Town Council considered public testimony, discussed both documents, considered the Finance Commission recommendations, and directed staff to bring back the documents for final approval, incorporating the Council’s recommendations. This included all but one of the Finance Commission recommendations. The Council did not move forward with the recommendation to

use the 115 Pension Trust to make a one-time additional discretionary payment to CalPERS at this time. The Council will wait until the conclusion of the Asset and Liability Management study to determine the need for the transfer.

DISCUSSION:

The draft resolution (Attachment 1) incorporates the budget direction provided by the Council at the May 19, 2026, budget hearing.

As part of that direction, the Council approved:

- \$1,501,527 reduction in Vehicle and Equipment Internal Fund (ISF) charges to the General fund
- \$811,334 Transfer out of the General Fund, resulting in increased expenditures
- \$811,334 Transfer into the Facilities Fund, resulting in increased revenue
- \$335,083 Increase expenditures in facilities projects in the Facilities ISF fund (Attachment 5)
- \$134,368 Increase in expenditures in the General Fund for four Parks and Public Works contracts that materialized higher than originally budgeted
- The establishment of a new Capital Fund, “Long-term Community Benefit”
- \$3,000,000 transfer out of the General Fund, resulting in increased expenditures
- \$3,000,000 transfer into the “Long-term Community Benefit” Capital Fund, resulting in increased revenue
- \$3,000,000 Committed Reserve for future use of these funds in the “Long-term Community Benefit” capital fund.

In addition, the Council requested information on how other agencies in Santa Clara County are treating ERAF funds. This information is included in Attachment 6. The Council also requested that a narrative about how the unassigned fund balance was established and has grown be added to page C-29 of the financial summaries section, and is included as Attachment 4.

Attachment 2 (GASB 54 Commitment Resolution) includes changes to reserves as noted above and all fund balance allocations and reclassifications.

### FY 2025-26 Year-End Estimate

In anticipation of the end of the FY 2025-26 fiscal year, the Council is being asked to approve several revenue and expenditure budget adjustments, as listed in Attachment 3. These year-end adjustments reflect revised estimates and operational impacts that have occurred since the Mid-Year Review in February and are necessary to ensure the FY 2025-26 budget reflects actual financial activity.

The FY 2025-26 adopted budget included a 4.6% position vacancy savings assumption for salaries and benefits, with the understanding that all vacant positions would be eventually filled through recruitment. However, recent estimates show that some departments and programs that are fully staffed will not realize the 4.6% budgeted salary savings. Staff is therefore requesting that Council approve salary and expenditure budget adjustments, as needed, up to the amount of the projected 4.6% vacancy savings for individual departments and programs, based on year-end actual expenditures.

Attachment 3 also lists the salary and benefit reclassification from the General Fund to Capital Projects to recognize the utilization of temporary staff for capital projects.

### Revenues

Revenues in the General Fund are expected to decrease by \$3.4 million to \$62.2 million as described below:

- Property Tax - \$0.2 million reduction due to a property tax agreement that will now result in a direct payment to the County instead of to the Town.
- Sales Tax - \$0.3 million reduction in revenues to reflect the most recent projections.
- Sales Tax Measure G - \$40,000 increase to reflect the most recent projections.
- Other Sources - \$2.9 million reduction in this category due to the sale of the 4 Tait property that is now expected to occur in FY 2026-27, not FY 2025-26, and an increase of \$54,042 for VTA Measure B Education & Encouragement Grant.

### Expenditures

Expenditures are expected to remain in line with FY 2025-26 Mid-Year Projections at \$61.7 million. However, budget transfers may be necessary to ensure program budgets end the year within budget, as fully or mostly fully staffed programs will not realize vacancy savings.

The result of these changes is a decrease in estimated surplus from \$4.7 million to \$1.3 million.

Alternate FY 2025-26 Estimate Budget for Expenses

To provide more refined year-end projections, staff have completed a high-level analysis of actual expenses plus encumbrances as of March 31, 2026, and developed an alternate FY 2025-26 Estimate budget. This analysis focused on Salaries and Benefits and the Operating Expenditure categories. For all other expenditure categories, the FY 2025-26 mid-year estimates were used. Updated revenue estimates included above were unchanged.

Salaries and Benefits – Actuals per pay period cost through March 31, 2026, were extracted, and an average per pay period cost was determined. Then this amount was multiplied by the number of pay periods remaining in the fiscal year to estimate the year-end salary and benefits. This has resulted in an estimated additional savings of \$2.6 million in addition to budgeted salary and benefit savings of \$2.2 million for total salary and benefit savings of \$4.8 million.

Operating Expenditures – A trend analysis using the average expenses as of the third quarter or March 31, 2026, divided by year-end actuals for FY 2020-21 to FY 2024-25 was used to determine the average percent spent. This average was then applied to expenses as of March 31, 2026, to arrive at FY 2025-26 year-end estimates. Any accounts without valid trend lines, either because of insufficient years of data, inconsistent data trends, or percentage errors, either assumed 75% spend as the trend, or, for instances where no dollars had been spent to date, we assumed no expenses would occur before year-end. This has resulted in an estimated additional savings of 1.0 million in estimated operating expenses savings.

Staff further tested this new trend analysis by completing the same analysis based on FY 2024-25 March 31 data to June 30. Based on that analysis, the trend analysis estimate would have come within \$140,000 or 1% of the year-end actuals. In comparison, the year-end estimate budget showed we would end the year \$2 million or 16% higher.

The result of these changes is an estimated increase in surplus from \$4.7 million to \$4.9 million, even with the reduction of anticipated revenue of \$3.4 million.

While the year-end estimate budget forecast shows the surplus decreasing to \$1.3 million due to changes in revenues and the postponed 4 Tait property sale, the alternate estimate—reflecting additional savings in salaries, benefits, and operating costs—projects a higher surplus of \$4.9 million. The Town is expected to finish the fiscal year between these two estimates.

Outlook

The Town's General Fund budget is balanced through the planned use of reserves. The Town is not structurally balanced, as ongoing revenues are insufficient to fully support ongoing expenditures. For FY 2026-27, the gap between recurring General Fund revenues and expenditures is being closed by applying a 4.6% vacancy savings factor. The utilization of \$3

million in fund balance is due to the transfer out of cash from the General Fund to the Long-term Community Benefit Capital Fund. Without this transfer, a small surplus of \$6,503 had been projected. As a result, the General Fund Unassigned Fund Balance for FY 2025-26 is projected to decrease slightly from an estimated \$11.6 to \$11.5 because of recommended year-end adjustments and reductions in the committed fund balance category. FY 2026-27 Unassigned fund balance is expected to decrease from \$11.0 million to \$8.5 due to the transfer out of \$3 million dollars from the General Fund to a new capital fund for long-term community benefit.

This continued reliance on reserves is not sustainable over the long term. As the Town continues its efforts to address this structural deficit, it must be mindful that it cannot continue to support the current level of operational investment without either identifying new ongoing revenue sources or reducing programs and services to bring expenditures in line with recurring revenues. In addition, current budget balancing strategies have reduced investment into the capital improvement program, and additional resources will be needed to address capital infrastructure needs. The Town Council and staff remain committed to a strategy of proactive fiscal management, regularly reviewing revenues, expenditures, and reserve levels, and making strategic adjustments to ensure the Town's long-term fiscal health.

#### Gann Limit

On November 6, 1979, California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIII B of the California State Constitution. This Proposition, which became effective in FY 1980/81, mandated an appropriation (spending) limit on the amount of tax proceeds that the State and most local government jurisdictions may appropriate within a fiscal year. Charges for services, fees, grants, loans, donations, and other non-tax proceeds are excluded from the spending limitation. Exemptions are also made for voter-approved debt prior to January 1, 1979, and the cost of court-related or Federal government mandates.

The Initiative was later modified by two propositions: Proposition 98 in 1988 and Proposition 111 in 1990. Proposition 98 established the return of tax revenues exceeding appropriation limit levels to the State or citizens through a process of refunds, rebates, or other means. Proposition 111 allowed more flexibility in the appropriation calculation factors.

Attachment 7 is a resolution for Council consideration to establish an appropriation limit for FY 2026-27. The appropriation limit is based on population and per capita income data provided by the State of California Department of Finance. In alignment with State guidelines, the appropriation limit for FY 2026-27 was calculated using inflation and population factors comprised of the change in County or Town population (whichever is higher) and the change in California per capita personal income.

The calculation of the FY 2026-27 Gann Appropriation Limit is as follows:

FY 2026-27 Calculation

County Population Factor		Per Capita Income Factor	=	Appropriation Factor	X	2025-26 Appropriation Limit	=	2026-27 Appropriation Limit
1.0023	X	1.0495	=	1.051913850	X	\$ 59,380,183	=	\$ 62,462,836

The appropriation limit is the total amount of tax money that can be appropriated by the Town in FY 2026-27. The proposed FY 2026-27-budget anticipates \$44,627,959 in taxes, which is \$17,934,877 less than the appropriation limit of \$62,462,836.

CONCLUSION:

Staff recommends the Council adopt a Resolution approving the Town of Los Gatos Fiscal Year (FY) 2026-27 Operating Budget and FY 2026-27 to 2030-31 Capital Improvement Program (CIP)(Attachment 1), adopt a Resolution approving commitment of Fund Balances under GASB 54 (Attachment 2), and approve the FY 2025-26 budget adjustments (Attachment 3).

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. Resolution of the Town Council Approving FY 2026-27 Operating Budget and FY 2026-27 to 2030-31 Capital Improvement Program (Attachment 1), including Exhibit A: Total Town Revenues and Expenditures by Fund
2. Resolution of the Town Council of the Town of Los Gatos Approving Commitments of Fund Balance under GASB 54
3. FY 2025-26 Year-End Budget Adjustments and Reclassifications
4. FY 2026-27 Financial Summaries Fund Balance Narrative Page C-29
5. Facilities Projects List
6. Santa Clara County agencies ERAF survey results
7. Resolution of the Town Council Establishing the FY 2026-27 Appropriations Limit for the Town of Los Gatos