



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 02/10/2026

ITEM NO: 1

DATE: February 10, 2026
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: **Discussion of the Town's Strategic Priorities and Budget Process**

RECOMMENDATION: Discuss and review the Town's Strategic Priorities, accomplishments, and the 2026-27 Budget Process, and provide any input.

FISCAL IMPACT:

There is no immediate fiscal impact associated with this report. However, based on the outcomes of the discussion, future budgetary adjustments may be considered to better align resources with strategic priorities.

STRATEGIC PRIORITY:

This item involves a discussion of all strategic priorities shown in Attachment 2.

BACKGROUND:

The Town of Los Gatos has emphasized strategic planning as a foundational tool for effective governance, fiscal responsibility, and the delivery of high-quality public services. The Town's mission, vision, core goals (**Attachment 1**), and strategic priorities (**Attachment 2**) together establish the framework that guides policy decisions, resource allocation, and long-term planning efforts.

During the February 11, 2025, Strategic Priority Retreat, the Town Council confirmed continued alignment with the Town's mission, vision, and core goals, with no changes recommended in those areas. In contrast, there was substantive discussion regarding the Town's strategic

PREPARED BY: Chris Constantin
Town Manager

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

priorities. That discussion resulted in revisions to the 2025–2027 Strategic Priorities, including the identification of three top priorities and the reframing of several additional priorities.

The three top priorities were intended to concentrate Town efforts and resources in areas where focused attention would support meaningful progress. These priorities include:

- Further the Town's emergency preparedness, resiliency, and response capabilities, particularly in the area of wildfire risk.
- 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. Define and implement a cohesive deferred capital improvement program for Town facilities and lifecycle assets.
- Preserve the Town's small-town charm and provide a range of housing opportunities and historic neighborhoods, while diligently maintaining and implementing the Housing Element.

While the remaining items continue to be identified as strategic priorities, the intent of the revised framework was to focus staff capacity and organizational effort on the top priorities, with progress on additional priorities occurring as resources and workload allow.

This study session is intended to provide a focused discussion of the Strategic Priorities, offer a high-level overview of the Town's policy direction as it relates to development of the 2026–27 Operating and Capital Budgets, and provide the Town Council with an opportunity to share additional insight to inform staff as the budget development process moves forward.

DISCUSSION:

Strategic priorities are intended to translate the Town's mission, vision, and core goals into a clear and organized framework for decision-making, resource allocation, and organizational focus over a defined period of time. Collectively, they identify areas of work that warrant deliberate attention and coordination, while recognizing that the Town must continue to deliver a wide range of ongoing services and initiatives.

Within this framework, the identification of top priorities is intended to help focus efforts in key areas where sustained attention can support meaningful progress. The additional priorities continue to reflect important strategic areas that guide Town activities and policy direction. This distinction is intended to support clarity and sequencing, rather than to diminish the importance of any individual priority, and to acknowledge the need to balance organizational ambition with available staff and financial capacity.

As a practical matter, emphasizing the top priorities may result in slower advancement or deferred progress on other priorities. Council discussion regarding acceptable pacing and sequencing across priorities will assist staff in aligning workload, staffing, and capital planning assumptions.

Discussion of Strategic Priorities and Accomplishments

As part of this study session, staff will provide a high-level overview of each strategic priority, including highlights of key accomplishments to date, current initiatives underway, and areas of focus moving forward. This approach is intended to support a shared understanding of progress across all priority areas and to inform the Town Council's discussion as it considers future direction and resource alignment.

Town Council input on the approaches staff are taking on strategic priorities is valuable. Council feedback related to work aligned with the strategic priorities would be especially helpful at this time, as it will provide departments with full visibility and awareness. During budget development, staff will endeavor to incorporate such feedback where possible, and any inclusions will be identified later in the budget process. If there are any other items not addressed in the budget, the Council can act to give direction at the time the budget is being considered, and additional analysis for such items can be undertaken and brought back to Council at either final budget approval or early in the fiscal year.

Reframing the Current Budget Structure to Support Performance Tracking and Reporting

In 2025, staff initially anticipated identifying tactical priorities to further refine the strategic priorities framework. However, following a review of the Town's existing performance measurement systems, the Town Council's and Finance Commission's interest in clearer performance indicators, such as a balanced scorecard, and an assessment of the complexity involved in developing meaningful tactical priorities, staff concluded that a different approach is warranted. This conclusion is further supported by the strategic priority to:

"Develop structure to ensure accountability of how funding resources move forward the Town's core goals and priorities."

Section D of the Operating Budget, which presents departmental budgets, programs, and activities, currently serves as the primary vehicle for reporting on Town operations. This section comprises approximately 330 pages of the nearly 600-page budget document.

At present, information for departments, offices, and programs generally includes narrative descriptions, budget overviews, listings of key program services, summaries of revenues and expenditures, full-time equivalent staffing details, accomplishments and projects organized by core goals, and performance objectives and measures spanning a five-year period.

Based on a review of how this information is used and the level of staff effort required to produce it, this section does not appear to effectively support the Town's strategic priorities or decision-making needs. Additionally, the scope and format of the section have resulted in a substantial workload that functions more as a once-a-year reporting exercise than as a tool for ongoing improvement, accountability, or course correction.

To advance the strategic priority related to accountability for core goals and priorities, staff are reviewing this section and anticipating reframing and revising it over the next one to two years to improve its usefulness and relevance. The objective is to better support budget discussions and to establish a higher-level performance indicator structure that provides more timely, ongoing information for Town Council consideration throughout the year.

Budget Approach for 2026-27 - Operating

The Town maintains a five-year forecast annually to provide insight into the budget process. For the past several years, the Town has projected deficit spending for future years. The most recent five-year forecast indicates a deficit of \$4.1 million for 2026-27, with deficits reaching as high as \$5 million in 2029-30. Such projections would necessitate significant reductions to balance the budget or to rely on reserve balances, to the extent available, in order to preserve programs and services.

However, where the Town projected deficits, it has ended those years with surpluses due to one-time factors that recently included higher vacancy savings, higher interest income, and lower expenditures than budgeted. Thus, in 2024-25, when the Town was preparing the budget for 2025-26, the Town made some reductions but strategically decided to rely on reserve balances to preserve programs and services. This approach was intended to remain an approach until the Town incurred an actual deficit, which would necessitate structural reductions.

In late 2025, the Town contracted with NHA Advisors, and its subcontractors Raftelis and Willdan, to perform a financial condition assessment, ten-year forecast, fiscal impact analysis for housing development, and an asset liability study. The purpose of these efforts was to provide more refined information to allow for better budget planning and to address longer-term efforts to structurally balance the budget while also maximizing the efficient allocation of capital resources to support the second top priority of prudent financial management.

Preliminary information from the consulting team is that the Town's current level of service, while not accounting for deferred maintenance and other additional expenditure items, would result in smaller deficits than the Town's prior five-year forecast. Such information aligns with historical performance. While the information is very preliminary and only reflects 6 weeks of the consultant's analysis, staff believes approaching the 2026-27 budget with a more cautious approach to reductions and to rely on reserve balances to reduce impacts on program and services remains a prudent approach.

As such, staff intend to proceed with the current year budget approach of balancing planned use of reserves with proposed reductions, with a focus on reducing impact on operations until such a time that the Town actually incurs a deficit at the end of the year. The executive team will meet again to collaboratively assess such impacts and reserve use to take into account the Council perspective received tonight, expertise of department heads, and balancing priorities for the 2026-27 year.

This approach reflects a policy tradeoff between accelerating structural reductions before deficits are realized versus preserving current service levels while additional financial data is developed. Council discussion of this tradeoff and tolerance for the planned use of reserves relative to service reductions will help inform how conservative or flexible the proposed 2026–27 budget should be.

Budget Approach for 2026-27 – Capital

In recent years, numerous questions have been presented to staff regarding the capital improvement and maintenance needs of the Town. Questions have also been presented to staff regarding project delivery.

On November 19, 2024, a Town Council study session addressed the topic of the Town of Los Gatos Capital Improvement Program. At that meeting, the Council received a report on the capital-related needs of the Town as they relate to buildings, roadways, parks, storm drainage, and information technology.

To address the questions and concerns that have been presented to staff, the Town's Capital Improvement Program for Fiscal Years 2025-26 through 2029-30 presented projects as Tier 1 and Tier 2. Tier 1 projects were identified as high priority projects that would receive staff attention in Fiscal Year 2025-26. Tier 2 projects were all other previously funded projects for which staff time and financial resources could not be dedicated in the current year.

Progress on Tier 1 capital improvements is ongoing. A total of 36 Tier 1 projects were planned for Fiscal Year 2025-26; eight of these are expected to be fully completed and closed by the end of the fiscal year. All others are in progress with consultant selection, design, construction, or grant agreement development, being completed during the current fiscal year. **Attachment 3** is a summary of project status.

For Fiscal Year 2026-27, staff will continue the Tier 1 and Tier 2 project delivery approach and will continue working on the remaining Tier 1 projects. Two new Tier 1 projects are currently under consideration to be added in the next fiscal year: Fleet Outdoor Service Work Area (Construction Phase) and Replacement of Emergency Backup Generator at 41 Miles Avenue. The Fleet Outdoor Service Area (Construction Phase) is a continuation of the design phase of this work (existing Tier 1 Project No 821-2311). The replacement of the emergency generator at

Parks and Public Works (PPW) is a critical need. The generator has exceeded its useful life. If it were to fail, PPW could not operate, including the Town's fuel pump system; failure of which would hinder PPW and public safety operations.

Recognizing that better systems and data management are needed to more effectively manage public works infrastructure, and for more robust capital planning, PPW staff have begun to strengthen their internal systems. As part of this effort, PPW has recently filled a dedicated Systems and Data Analyst position to support this work. This analyst will focus on building out the existing work order system and expanding it, so all assets are represented. Information provided for each asset will include the type of asset, date of installation, life expectancy, projected replacement dates, annual maintenance needs, and associated costs. Building out this system for all assets is expected to require two to three years of effort.

Vehicles and buildings will be the first areas of focus. Preventive maintenance schedules and information for vehicles are already represented in the asset management program. Financial information on replacement values and life cycles will be added to the vehicle information to make this data complete and ready to use for budgeting. Buildings are also a primary target because the Town has initial facility assessments that were completed in 2022, providing data on projected replacement cycles of certain building systems. This information provides a basis for developing the asset management system.

The Town Council's input regarding high-level expectations for the approach, pacing, and sequencing of capital project delivery would be helpful during this discussion.

CONCLUSION:

Town Council input is requested, particularly regarding priority emphasis, tolerance for the planned use of reserves relative to service reductions, and expectations for the pacing and sequencing of capital project delivery. The results of this planning process should be to gain an understanding of how the Town is performing and how it can improve going forward.

COORDINATION:

The item was coordinate with the Town Manager, Parks and Public Works Director, and the Administrative Services Director.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under the California Environmental Quality Act (CEQA), and no further environmental review is required.

Attachments:

PAGE 7 OF 7

SUBJECT: Discussion of the Town's Strategic Priorities and Budget Process

DATE: February 10, 2026

1. Current language of the Town's mission, vision, and core goals
2. Town's 2025-2027 Strategic Priorities
3. 2025-26 CIP Project Status
4. Public Comment