RAFTELIS

TOWN OF LOS GATOS

Fiscal Condition Analysis

Draft Report / July 2026

ATTACHMENT 1

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July 7, 2026

Kristina Alfaro
Administrative Services Director
Town of Los Gatos
110 E. Main St.
Los Gatos, CA 95030

Subject: Fiscal Condition Analysis

Dear Kristina Alfaro:

Raftelis is pleased to provide this Fiscal Condition Analysis for the Town of Los Gatos (Town) to help the Town forecast future financial conditions and assess the impact of potential policy decisions or other changes to the Town's financial condition.

The report summarizes the Town's current financial condition and projected condition over a 10-year period. It also details the assumptions made to develop that projection and assesses how projections alter when key variables are changed. This report accompanies a separate financial forecasting model provided to the Town for use as an ongoing projection tool.

It has been a pleasure working with you, and we thank you and the Town staff for the support provided during the course of this project.

Sincerely,

Jonathan Ingram
Vice President - Organizational Assessment

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Executive Summary

One feature that defines high-functioning organizations is their ability to proactively identify and plan for future opportunities and risks. Financial projections are a valuable tool in future planning, as they allow organizations to better understand potential future trends and supports them in developing a financial structure that mitigates potential risks and helps the organization achieve its strategic goals.

In 2025, the Town of Los Gatos, California engaged NHA Advisors, along with subcontracted firms Raftelis Financial Consultants (Raftelis) and Willdan, to develop a long-term Fiscal Condition Assessment, Fiscal Condition Analysis, and Asset Liability Management (ALM) Study. Raftelis developed the Financial Condition Assessment, as detailed in this report, defining assumptions to project revenues and expenditures for the Town's General Fund and capital funds over a ten-year period.

Raftelis worked closely with Town staff and leadership to develop a robust forecast for future revenues and expenditures. It is important to note that the projections in the baseline model developed by Raftelis are intended to reflect the current status quo, without any significant policy changes or shifts in demographic or economic trends. The model assumes that Town staffing will remain flat over the projection period and that there will not be any significant new program areas, revenue sources, or changes to Town service levels.

The projections in this baseline model do not represent actual revenues and expenditures; the Town will certainly make policy changes over the next 10 years that impact its financial condition. Instead, the purpose of the baseline forecast is to illustrate the potential impact of revenue and expenditure trends, as well as to serve as a planning tool for the Town's leadership to frame high-level policy and investment considerations. Prospective policy changes can be forecast in the model and then compared to this baseline projection to better understand the potential impact.

Model forecasts were developed by category using the best-available data to project future trends. Data sources and assumptions for each category are discussed in detail further in this report. Key information used to develop the forecasts include trends in actual revenue and expenditures, assessed valuation, population, and cost of living.

The forecast model projects that revenue in the baseline scenario will grow by an average of 3.6% per year, while expenditures will grow by an average of 4.4% per year. The following tables summarize projected General Fund revenues and expenditures by category for the base year, Fiscal Year (FY) 2026, as well as the 10-year projection period.

Table 1: Projected Baseline General Fund Revenues, FY2026-FY2036 ($M)

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Property Tax and VLF Backfill	$27.1	$29.0	$30.6	$32.2	$34.1	$35.9	$38.0	$40.1	$42.4	$44.7	$47.2
Sales and Use Tax	$9.1	$9.3	$9.5	$9.7	$9.8	$10.1	$10.3	$10.5	$10.7	$10.9	$11.1
Other Taxes[1]	$5.9	$6.1	$6.2	$6.3	$6.4	$6.6	$6.8	$6.9	$7.1	$7.2	$7.4
Licenses & Permits	$6.3	$6.3	$6.4	$6.4	$6.4	$6.5	$6.5	$6.5	$6.5	$6.6	$6.6
Town Services	$5.7	$5.9	$6.1	$6.3	$6.5	$6.7	$6.9	$7.1	$7.3	$7.5	$7.7
Other Revenue	$6.4	$6.4	$6.0	$6.1	$6.0	$5.8	$5.6	$5.7	$5.5	$5.6	$5.7
Total	**$60.5**	**$63.0**	**$64.8**	**$67.0**	**$69.2**	**$71.6**	**$74.1**	**$76.8**	**$79.5**	**$82.5**	**$85.7**
Percent Change	N/A	4.0%	2.9%	3.5%	3.2%	3.6%	3.4%	3.7%	3.6%	3.8%	3.8%

Table 2: Projected Baseline General Fund Expenditures, FY2026-FY2036 ($M)

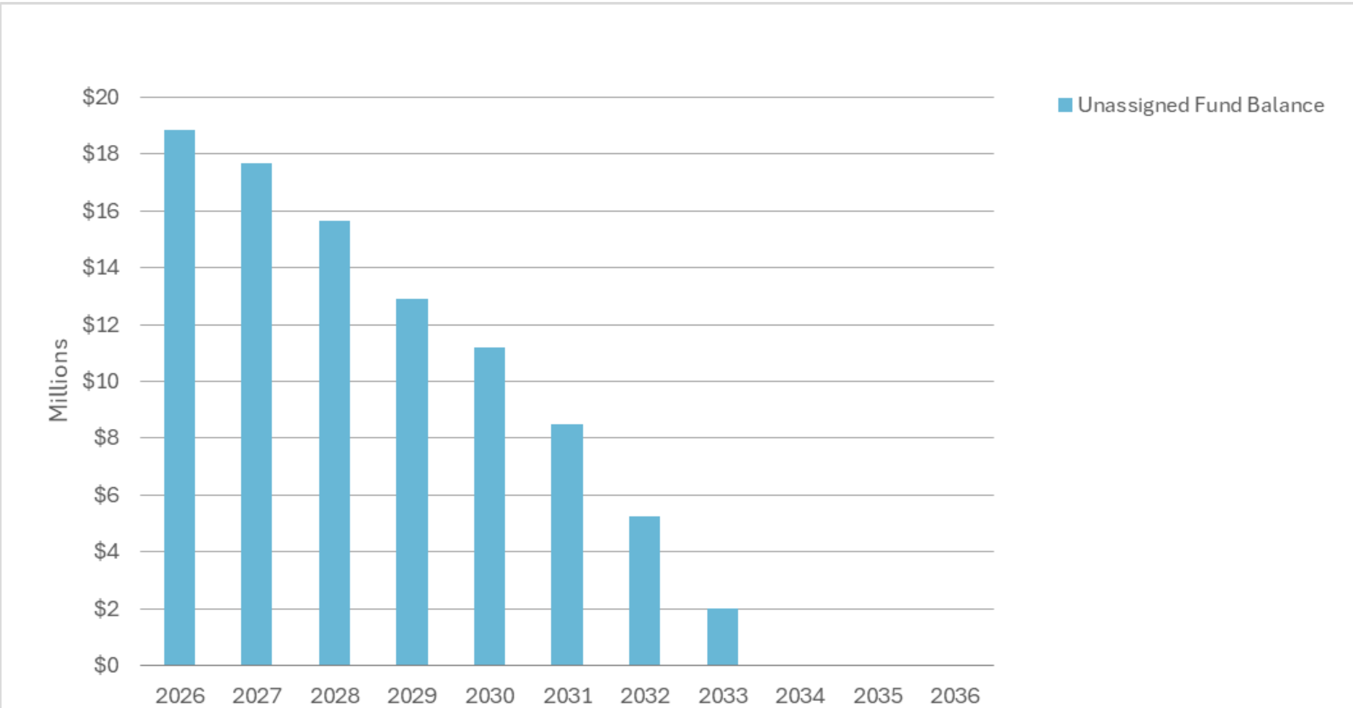
Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Personnel Costs	$40.9	$42.9	$44.8	$47.4	$49.7	$52.0	$54.3	$57.1	$59.5	$62.3	$64.7
Internal Service Charges	$6.5	$7.0	$7.2	$7.5	$7.7	$7.9	$8.2	$8.4	$8.7	$8.9	$9.2
Debt Service[2]	$2.1	$2.1	$2.1	$2.1	$0.8	$0.8	$0.7	$0.0	$0.0	$0.0	$0.0
Capital Transfers	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Other Expenditures	$10.0	$10.4	$11.2	$11.8	$12.5	$13.5	$14.3	$15.2	$16.1	$17.1	$18.2
Total	**$60.5**	**$63.4**	**$66.3**	**$69.8**	**$71.7**	**$75.2**	**$78.5**	**$81.7**	**$85.3**	**$89.3**	**$93.1**
Percent Change	N/A	4.9%	4.5%	5.3%	2.7%	4.8%	4.4%	4.0%	4.4%	4.7%	4.3%

[1] Includes Business License Tax, Transient Occupancy Tax, and Franchise Fees

[2] Reflects existing debt service schedules; no new debt is assumed in the baseline model

Expenditures are expected to outpace revenues, leading to a projected operating deficit starting in FY2027. Under these forecast assumptions the Town would deplete its unassigned[3] General Fund balance by approximately 2034, as illustrated in the following figure.

Figure 1: Los Gatos Base Scenario General Fund Unassigned Fund Balance Projections



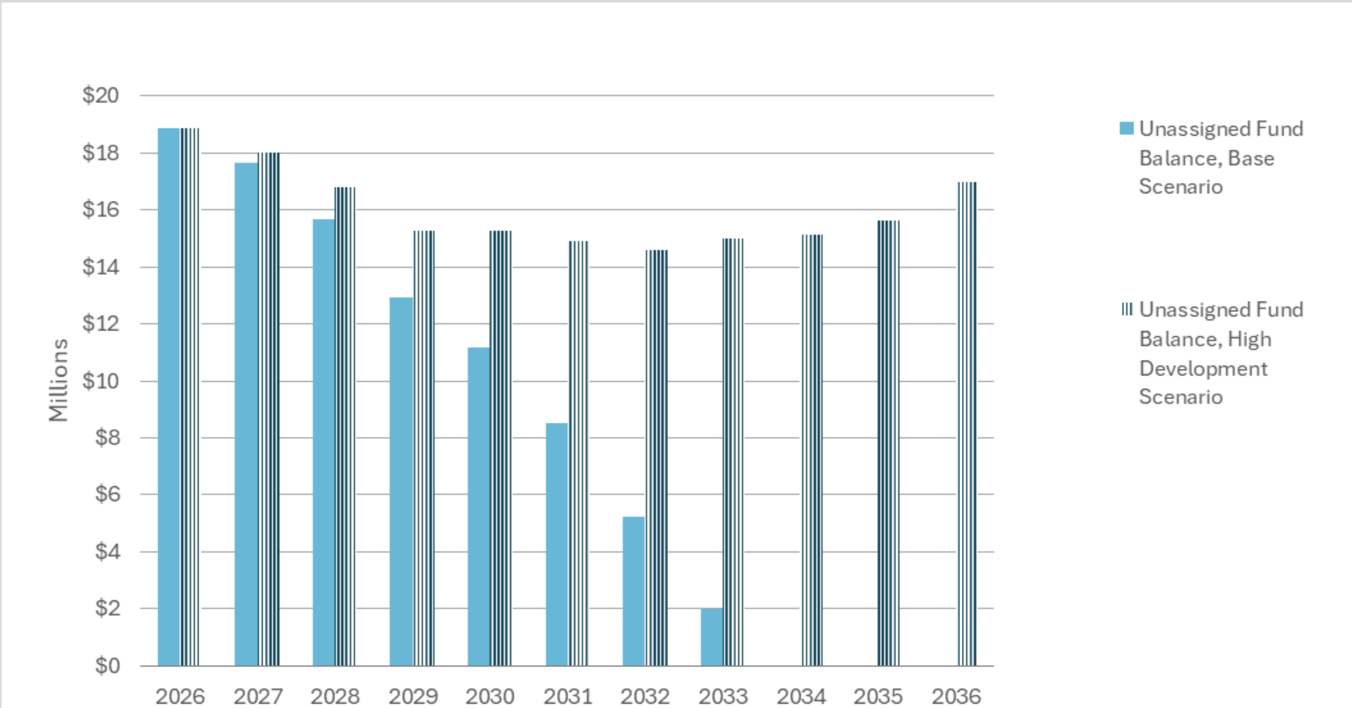
These projections illustrate the potential risks of the Town's current financial condition. However, it is important to reiterate that this scenario assumes no policy intervention by Town leadership. It is a baseline scenario intended to help identify future risks and to serve as a point of comparison to other potential scenarios.

The forecast is also intentionally conservative about the Town's population and development trends to reflect the possibility of an economic downturn and/or slower development during the projection period. If the economy and growth are more robust than assumed in the baseline model, the Town's financial position could look quite different. For example, the figure below compares projected unassigned fund balance in the baseline scenario to a scenario with more development and faster growth in property valuation.[4]

[3] The portion of General Fund balance above the minimum. Minimum General Fund balance is defined by Town policy to be 25% of expenditures in a given year.

[4] The Scenarios and Sensitivity Analysis section of this report provides more detail on the assumptions used to develop this scenario

Figure 2: Los Gatos Base Scenario General Fund High Development Sensitivity Analysis



As the figure illustrates, the Town's actual economic conditions in the coming years could look significantly different based on external factors as well as internal policy decisions. However, it remains important for the Town to take note of the trends identified in the baseline scenario: the Town is currently at risk of a growing General Fund deficit in the coming years. However, the Town's foresight in commissioning this study has created an opportunity to proactively address these emerging risks and better position the organization to meet future conditions.

The following sections provide more detailed analysis of the Town's financial condition and the assumptions used to project future expenditures and revenues.

Introduction

Background

In 2025, the Town of Los Gatos issued a request for proposals to conduct three studies:

1. Fiscal Condition Assessment with Five-Year and Long-Term Financial Projections
2. Fiscal Impact Analysis for proposed and planned growth
3. An ALM Study

The contract was awarded to NHA Advisors with sub-contract support from Raftelis and Willdan. Raftelis is leading the first study with the development of a baseline long-term financial model, which is the focus of this report. Willdan is supporting the second study, focusing on fiscal impact analysis that incorporates proposed and planned growth based on the Housing Element Plan and General Plan, with sensitivity analysis regarding the percentage of new units designated as affordable. Both of these studies will support the future ALM study. Work began in December 2025, with ongoing coordination from each consulting firm.

Development of a long-term financial model began with a detailed review of the Town's financial data, policies, and economic factors influencing the fiscal outlook. This included working closely with Town Finance staff to understand their budgeting and forecasting methodology. The team then used this data and feedback to develop reasonable, defensible financial projections by category for revenues and expenditures in the Town's General Fund and capital funds. The forecasts show trends over a 10-year period, with FY2026 as the base year and FY2027-2036 as the projection years.

As part of this project, Raftelis also provided the financial model used to the Town, so that Town staff can use it for future projections. The model allows users to compare the baseline scenario against other potential scenarios to illustrate those scenarios' potential impact. The model can also be updated with new data so that it can be used in future years.

Town Financial and Staffing Overview

General Fund Revenue and Expenditure Trends

The following tables illustrate historical General Fund revenues and expenditures by category for FY2019 through FY2025.

Table 3: Historical General Fund Revenues, FY2019-FY2025 ($M)

Category	2019	2020	2021	2022	2023	2024	2025	Average Change
Property Tax	$13.6	$14.5	$15.8	$16.9	$18.2	$19.3	$20.2	6.7%
Sales and Use Tax (non-Measure G)[5]	$7.9	$6.5	$6.8	$7.2	$7.5	$6.8	$7.0	-1.7%
Sales and Use Tax (Measure G)[6]	$0.2	$1.0	$0.5	$0.6	$0.6	$0.6	$0.7	51.7%
Licenses & Permits	$3.0	$2.7	$3.0	$4.8	$3.3	$4.0	$6.7	19.6%
Town Services	$4.4	$4.4	$4.8	$5.3	$4.6	$5.9	$5.4	4.2%
Vehicle and License Fee Backfill Property Tax	$3.7	$3.9	$4.1	$4.2	$4.6	$4.9	$5.1	5.6%
Business License Tax	$1.5	$1.4	$1.4	$1.5	$2.4	$1.5	$3.0	19.6%
Other Sources	$6.6	$2.7	$3.6	$6.4	$6.9	$3.6	$2.5	-3.3%
Transient Occupancy Tax	$2.7	$1.9	$1.0	$1.9	$2.2	$2.4	$2.4	5.4%
Interest	$0.8	$1.1	$0.8	$0.6	$0.6	$0.9	$1.7	22.0%
Intergovernmental	$0.9	$1.1	$1.6	$1.3	$1.6	$1.2	$1.4	9.1%
Mark to Market[7]	$0.6	$1.1	-$0.8	-$2.0	$0.0	$1.7	$1.2	8898.6%
Franchise Fees	$2.5	$2.5	$2.5	$2.8	$3.1	$2.5	$1.1	-8.8%
Transfers In	$1.6	$0.6	$0.7	$0.6	$0.5	$0.6	$0.8	-3.7%
Fines & Forfeitures	$0.5	$0.3	$0.1	$0.3	$0.4	$0.5	$0.4	22.2%
Total	**$50.7**	**$45.6**	**$46.0**	**$52.5**	**$56.4**	**$56.4**	**$59.5**	**3.0%**

[5] Revenue received by the Town equivalent to 1% of the State's base sales tax rate (7.25%)

[6] Revenue from additional 1/8 cent general sales tax approved by Town voters in 2018

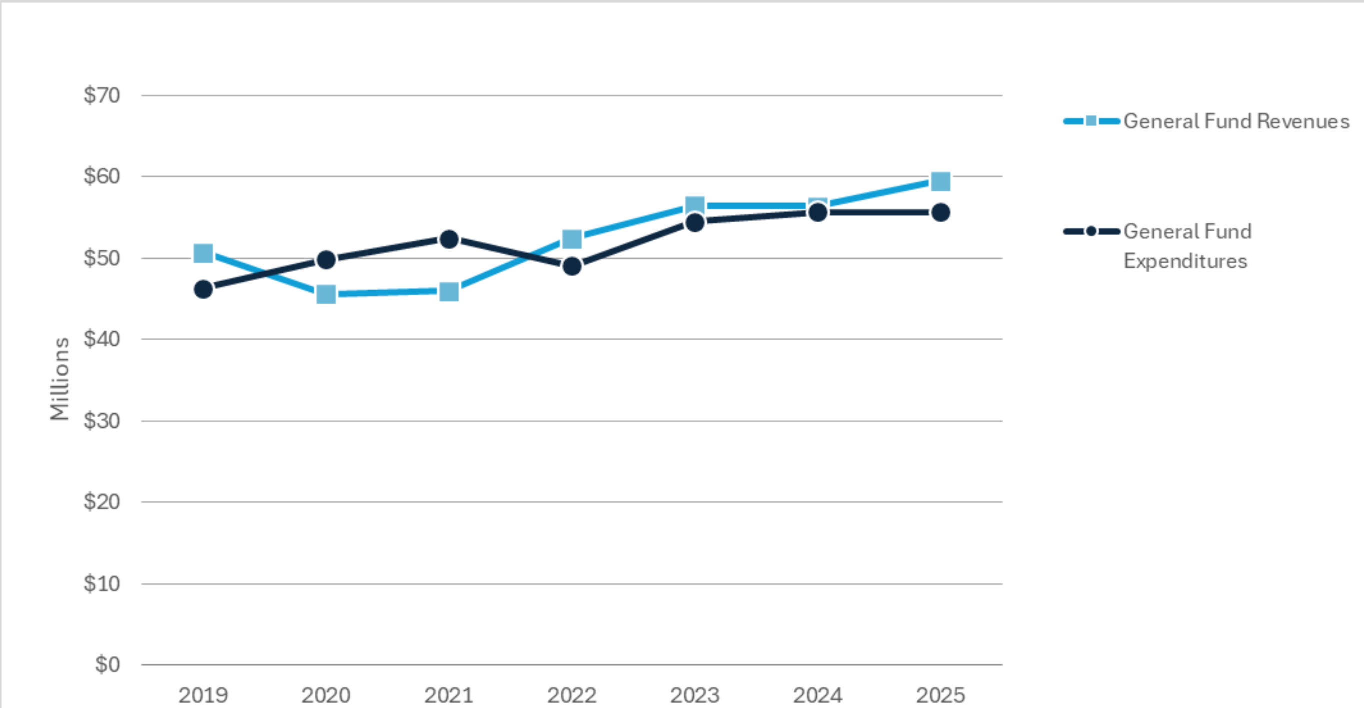
[7] These are accounting gains and are not considered in the financial projections

Table 4: Historical General Fund Expenditures, FY2019-FY2025 ($M)

Category	2019	2020	2021	2022	2023	2024	2025	Average Change
Personnel- Salary	$17.2	$18.2	$19.0	$18.3	$20.0	$21.2	$21.8	4.1%
Personnel- Overtime	$0.7	$0.7	$0.9	$1.1	$1.4	$1.3	$1.3	11.9%
Personnel- California Public Employees' Retirement System (CalPERS)	$5.3	$6.1	$6.4	$6.5	$7.1	$7.4	$8.2	7.7%
Personnel- Healthcare	$1.9	$1.9	$2.0	$2.0	$2.1	$2.5	$2.6	5.4%
Personnel- Other Post-Employment Benefits (OPEB) Pay as You Go	$1.2	$1.2	$1.3	$1.4	$1.5	$1.6	$1.9	8.2%
Personnel- Other Benefits	$1.6	$1.7	$1.7	$1.7	$1.7	$1.8	$2.3	6.3%
Internal Service Charges	$2.5	$2.2	$2.3	$2.6	$2.6	$3.2	$4.2	9.6%
Other Operating Expenditures	$2.7	$2.4	$2.7	$4.2	$7.0	$4.7	$3.9	12.3%
Purchased Services	$3.5	$3.4	$2.9	$3.3	$2.8	$4.2	$3.1	0.5%
Debt Service	$1.9	$1.9	$2.0	$2.1	$2.0	$2.1	$2.1	1.7%
Transfers Out	$6.4	$8.4	$9.5	$2.4	$3.7	$2.7	$1.9	-5.9%
Materials and Supplies	$0.5	$1.0	$1.0	$1.0	$1.3	$1.3	$0.9	15.8%
Utilities	$0.5	$0.5	$0.6	$0.6	$0.6	$0.7	$0.8	10.9%
Grants and Awards	$0.3	$0.3	$0.3	$1.8	$0.6	$0.7	$0.6	75.6%
Total	**$46.3**	**$49.9**	**$52.4**	**$49.0**	**$54.5**	**$55.7**	**$55.7**	**3.3%**

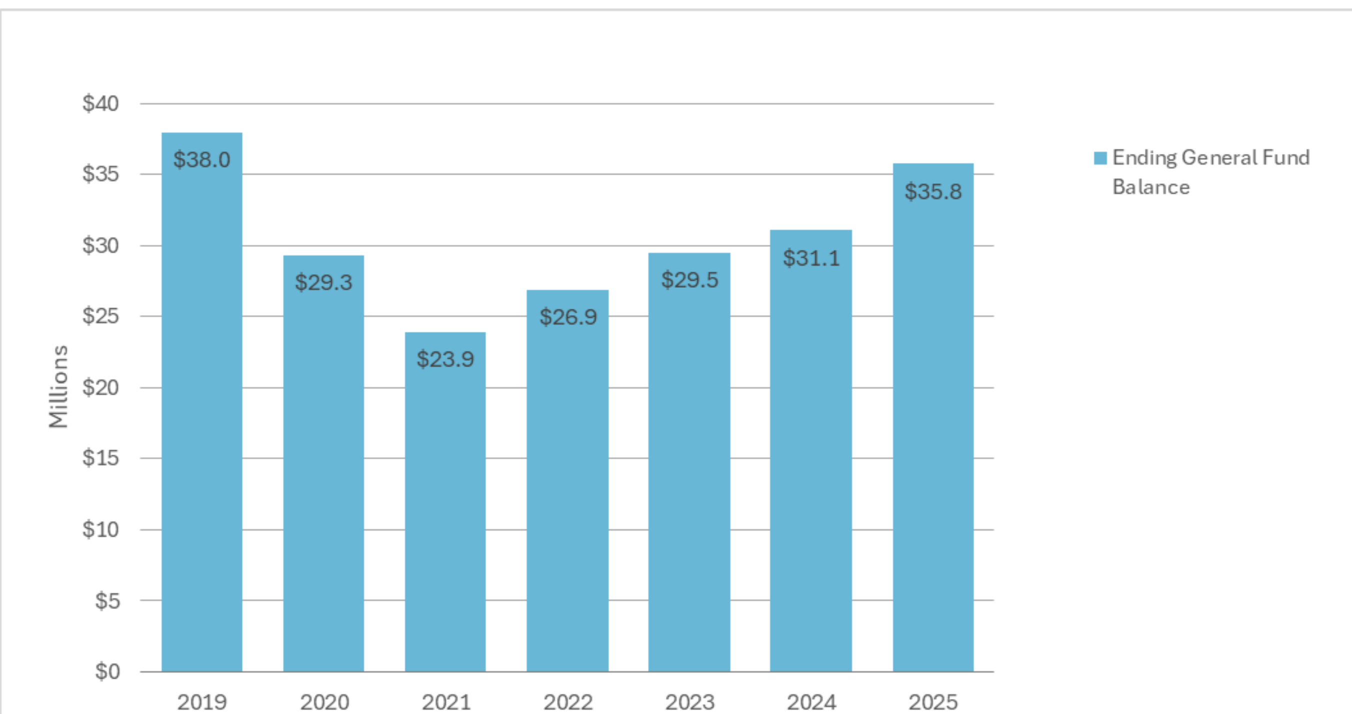
The Town's General Fund revenues decreased and expenditures increased during the Covid-19 pandemic years, but revenues have exceeded expenditures since 2022, as illustrated in the following figure.

Figure 3: General Fund Revenues and Expenditures, FY2019-FY2025



This revenue has helped the Town build up its General Fund balance in recent years, as shown below.

Figure 4: General Fund Ending Fund Balance, FY2019-FY2025

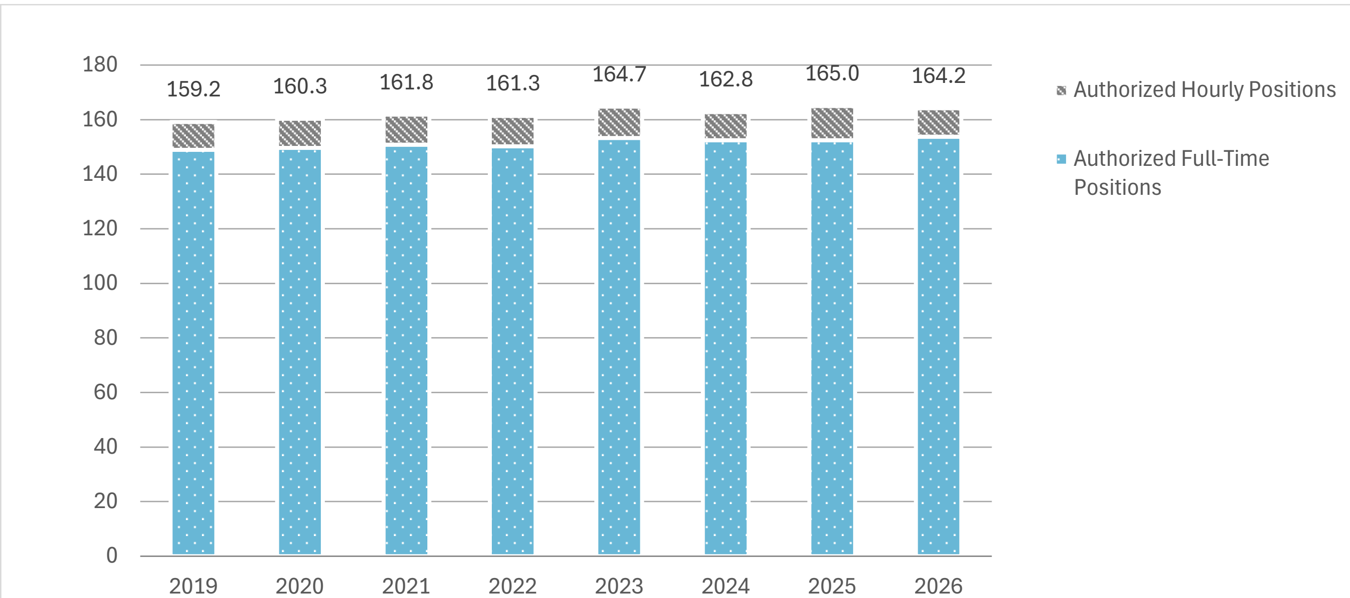


The Town has benefited from strong revenue in recent years, as well as policies to limit expenditure growth. However, it is important to note that these historical trends reflect a period of high growth. The economy has been strong in recent years, and an economic downturn would have a significant impact on revenue received.

Town Staffing Trends

Town staffing levels have remained relatively consistent in recent years, as illustrated in the figure below. The total number of Full-Time Equivalent positions (FTEs) increased by only 3% between 2019 and 2026.

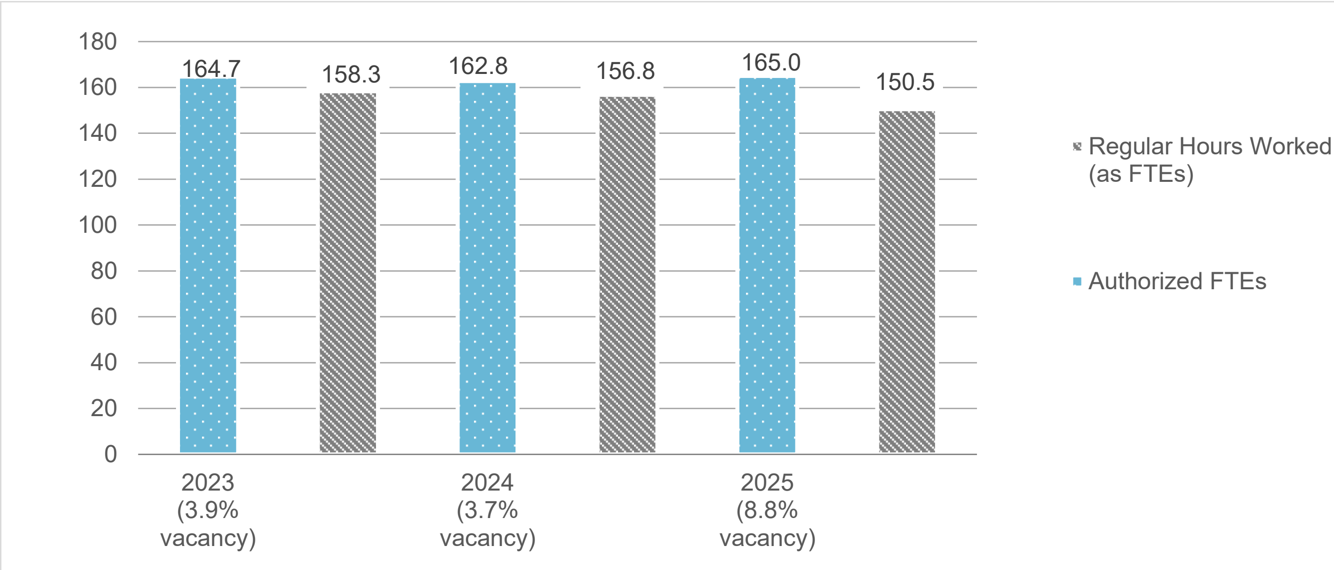
Figure 5: Authorized Full-Time Equivalent Staffing, FY2019-FY2025



The project team also reviewed actual staff hours to understand how they compare to authorized staffing levels. In 2025, Los Gatos staff (both benefitted full-time and hourly) worked a total of 313,083 regular hours[8], the equivalent of approximately 150.5 FTEs. In comparison, the Town had 165.0 authorized FTEs in 2025, which means the Town's vacancy rate in 2026 was approximately 14.5 FTEs or 8.8% of authorized positions. The following figure compares authorized positions for 2023 through 2025.

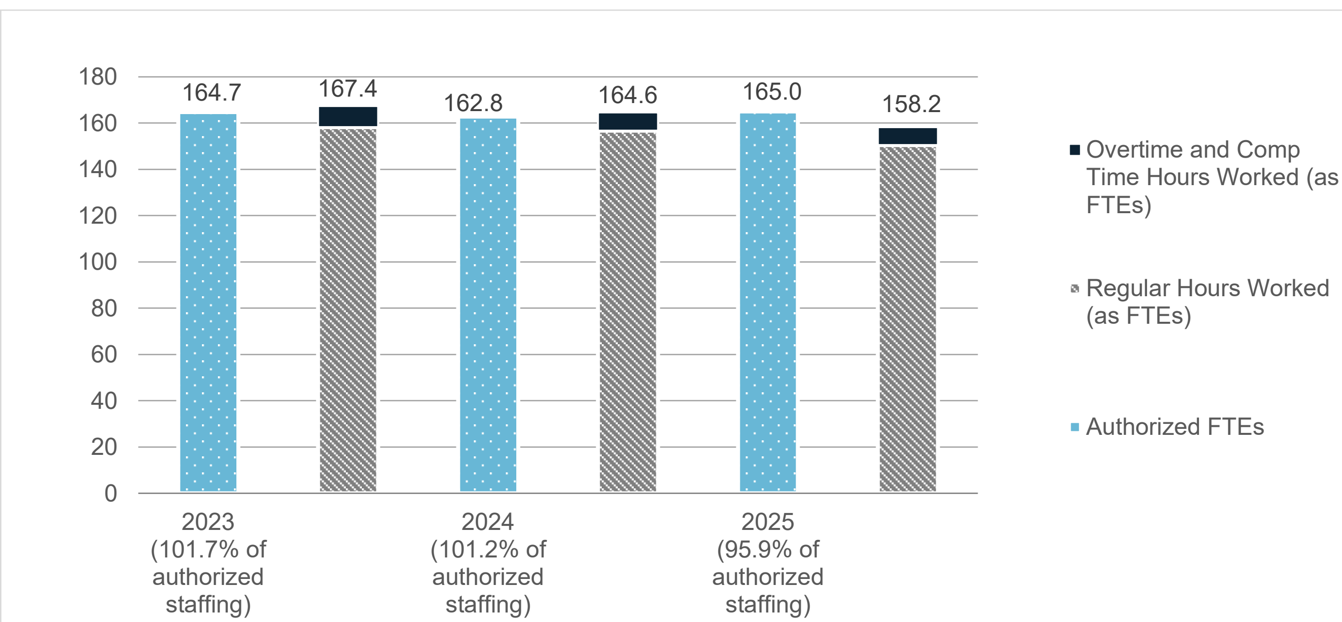
[8] Includes hours worked and leave, except for overtime hours and compensatory time earned.

Figure 6: Authorized Full-Time Equivalent Staffing versus Regular Hours Worked (All Staff)



The Town averaged 9.0 vacant FTEs per year between 2023 and 2025. However, much of that staffing gap was mitigated through staff working overtime or earning compensatory (comp) time. In 2025, staff worked a total of 14,082 hours of additional time above the standard 2,080 hours, the equivalent of approximately 7.7 FTEs. This means that the effective vacancy rate, when additional work hours are included, was 4.1%. In both 2024 and 2025 staff worked more hours than were authorized, as illustrated in the figure below.

Figure 7: Authorized Full-Time Equivalent Staffing versus Total Hours Worked (All Staff)



Appendix A of this report includes additional staffing analysis, including hours worked for full-time employees only and hours worked by department.

Financial Projection Methodology and Assumptions

The financial projections prepared for the Town of Los Gatos were made using a Microsoft Excel™-based financial model that projects General Fund revenues and expenditures, as well as capital expenditures, over a ten-year period. This section of the report provides an overview of the general methodology used for the projections and the model's structure. It also details the model's assumptions for each category of revenues and expenditures, including the data used as a basis for those assumptions.

Methodology for Developing Projections

The baseline forecast assumes normalized historical patterns will continue without major policy intervention. Normalized historical patterns leverage actual revenue and expenditure trends, after adjusting for one-time events or anomalies that may skew expected future results. Budget-to-actual results remain a relevant metric to understand how the Town has historically estimated major revenue and expenditure categories, including recent adjustments to the base budget that may be more in-line with actual performance.

The primary data source used to build the model is a line-item record of budgeted and actual revenues and expenditures by fund from FY2019 through FY2026, provided by Town Finance staff. Other information was also used to develop the model, including personnel history, collective bargaining agreements, economic and population data, and permit data. Further sections of this memo provide more detail on the specific information used to inform each assumption.

The baseline model was also built to balance accuracy with usability. It is meant to be a tool used by staff for years to come, and the more complex the model the more difficult it is to use and the more prone it is to errors. This is the reason why the project team, for example, looks at aggregate data on assessed value and new construction to estimate property taxes, rather than more specific data by census tract, because collecting and maintaining that data would be a significant burden on Town staff. Aggregate data also allows for better identification of trends that may not be apparent at a more granular level. Where appropriate, granular level data such as new housing units for a potential new development can be used in scenario analysis to understand the underlying adjustment or change in assumption required to compare with the baseline forecast.

Financial Model Structure

The model focuses on forecasting General Fund and capital expenditures and revenues over a 10-year period, from FY2027 through FY2036. The FY2026 budget is the initial base year for the model, although in some cases base year assumptions differ from budget, as discussed further in this report. For the purposes of this model, all Measure G Sales Tax revenue is considered part of the General Fund.

Revenue and Operating Expenditure Categories

The model forecasts operating expenditures and revenues by category. Revenue categories largely align with categories used in the Town's audited Annual Comprehensive Financial Report (ACFR), Budget Document, and State Controller's Office required Town Financial Transactions Report. In some cases, more granular categories were developed in consultation with Town staff. Categories were selected with the intention of balancing accuracy with the model's ease of use.

Categories of revenue and operating expenditures used in the model are listed below.

Table 5: Revenue and Operating Expenditure Categories in Model

Revenues	Operating Expenditures
• Property Tax	• Personnel- Salary
• Vehicle and License Fee (VLF) Backfill Property Tax	• Personnel- Overtime
• Sales and Use Tax (Non-Measure G)	• Personnel- CalPERS
• Sales and Use Tax (Measure G)	• Personnel- OPEB Pay As You Go
• Licenses & Permits	• Personnel- Other Benefits
• Franchise Fees	• Personnel- Vacancy Savings
• Town Services	• Grants and Awards
• Business License Tax	• Materials and Supplies
• Transient Occupancy Tax	• Utilities
• Intergovernmental	• Purchased Services
• Fines & Forfeitures	• Other Operating Expenditures
• Investment Income	• Internal Service Charges
• Other Revenue	• Debt Service
• Transfers In	• Transfers Out- New Capital
	• Transfers Out- Other (including Pension Trust)

Excluded Revenues and Expenditures

The model uses actual and budgeted revenue and expenditure data as provided by Town staff. This line-item data was mapped to the higher level categories outlined in this memo. Raftelis continues to work with the Town to reconcile actual expenditures provided in the line-item financial system detail with audited financial statements and budget documents. The ACFR reports by function (department), therefore, a direct reconciliation by expenditure classification as structured for the forecast model is not possible. This includes identifying accounts and/or one-time amounts to exclude for normalizing trends. Specific accounts and one-time amounts are identified below; however, this list may continue to change as we refine our understanding of the underlying data and chart of account/fund structure with Town staff.

Excluded accounts typically relate to non-cash or Generally Accepted Accounting Principles (GAAP) adjustments such as depreciation and mark-to-market adjustments. This allows for a forecast that reflects actual funds available for the Town's use.

Table 6: "Non-Cash" Revenue and Expenditure Accounts Excluded from Model

Account Description	Actual Amount
Revenue 45218 - GASB31 to Market	
2019	$643,911
2020	$1,092,564
2021	($780,399)
2022	($2,015,501)
2023	$3,197
2024	$1,712,246
2025	$1,201,824
Expenditures 62142 - Depreciation Expense[9]	
2019	$102,250
2020	$101,693
2021	$101,693
2022	$101,693
2023	$101,693
2024	$77,081,050[10]
2025	$5,914,417

Additionally, one-time revenues and operating expenditures are not considered in the model, because it is not assumed that they would carry forward into future years. This includes American Rescue Plan Act funds that the Town received from 2021 – 2025. The remaining one-time revenues and expenditures excluded from the model are listed in the table below.

[9] Depreciation expense is not recorded to the General Fund. Amounts represent total for all Town funds, including Internal Service Funds and Development Agency Fund.

[10] Fiscal Year 2024 includes a one-time, non-recurring depreciation adjustment related to the implementation of the Town's new financial system. Prior to this only Redevelopment Agency depreciation expenses were shown. This accounting entry established beginning balances for accumulated depreciation and is not comparable to prior years. Values going forward are larger due to the inclusion of all depreciation, not just RDA.

Table 7: One-Time Revenues and Expenditures Excluded from Model

Model Category	Account Number	Fiscal Year(s)	Amount	Town Chart of Accounts Description
Revenues				
Licenses and Permits	42416	2022 Actuals	$1,200,000	Contra revenue for bmp
Intergovernmental	43210	2021 Actuals	$388,181	CARES Act Coronavirus Relief
Intergovernmental	43211	No actual funds logged	$0	American Rescue Plan Act 2021
N/A – Capital Fund	45946	2023 Actuals	$1,565,000	Insurance Settlement
Other Sources	45949	2023-2025 Actuals	$45,323	Misc. Non-Operating Revenues
Town Services	45961	2025 Actuals	($344,388)	Contra revenue for bmp
Transfers In	49411	2025 Actuals	$250,000	Community Grants
Expenditures				
N/A	67109	No actual funds logged	$0	ARPA- American Rescue Plan Act
Grants and Awards	67506	2022 Actuals	$1,200,000	20 dittos ln BMR housing loan
Materials and Supplies	82202	2023, 2025 Actuals	$0	Land Acquisition
Purchased Services	81505	2024 Actuals	$706,713	Subscriptions - GASB 96

Capital

The model also estimates future capital costs for capital projects, vehicles and equipment, and technology. Costs are estimated based on the Town's adopted Capital Improvement Program (CIP), as well as equipment and technology replacement schedules provided by Town staff. The model projects the amount of money transferred from the General Fund to finance these investments, based on past history and Town direction. It assumes no new debt to support capital maintenance needs, although the model allows users to project the potential impact of new debt.

It is important to distinguish capital needs assumed in the baseline model from potential scenarios. For the baseline forecast, ongoing maintenance and replacement needs for existing assets are factored in. If the Town's historical funding for maintenance and replacement have not kept pace with actual need then there is inherent deferred maintenance. A catch-up or higher level of investment to address any deferred maintenance would be a potential scenario. A large-scale capital investment required to support anticipated development would also be considered a scenario.

Financial Forecast Assumptions by Category

The following sections detail assumptions used to project a 10-year General Fund baseline forecast, including projected revenues, operating expenditures, and transfers to other funds.

Revenues

The following sections detail the model's revenue assumptions by category. The sections discuss the model's assumptions for revenues in the base year of the model, FY2026, as well as assumptions for how that amount is projected to change over time during the model period.

The following table compares the categories used in the model to the categories reported in the Town's ACFR and provides context for any variation.

Table 8: Model vs. ACFR Revenue Categories

ACFR Category	Model Category	Comments
Property Taxes	Property Tax VLF Backfill	VLF Backfill is separated because it is revenue from the State, and so forecasts may vary
Sales Taxes	Sales and Use Tax (Non-Measure G) Sales and Use Tax (Measure G)	Separated due to potential differences in forecasts
Transient Occupancy Taxes	Transient Occupancy Tax	
Licenses & Permits	Licenses & Permits Town Services	Separated based on the Town's internal categories and to allow for more specific forecasts
Intergovernmental	Intergovernmental	
Fines and Forfeitures	Fines & Forfeitures	
Franchise Fees	Francise Fees	
Interest	Interest	
Other Taxes Use of Property Other	Business License Tax Other Sources	Business Licenses Tax separated to allow for forecasting based on economic conditions. Other categories are combined for model usability.
Transfers In	Transfers In	

Property Tax

The following table illustrates the Town's historical trend for actual property tax revenue collected, as well as the average annual change.

Table 9: Property Tax Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$13,636,099	N/A
2020	$14,454,513	6.0%
2021	$15,826,162	9.5%
2022	$16,899,618	6.8%
2023	$18,187,388	7.6%
2024	$19,321,147	6.2%
2025	$20,157,765	4.3%
Average		**6.7%**

2026 Budget: $21,450,971

Base Year Estimate: $21,450,971

Historically, General Fund revenue has been 5.6% higher than budget, but in the most recent year actual revenues were close to budget. The model maintains the 2026 budget as the base for forecasting property tax growth over the next ten years.

Potential Revenue Risks and Restrictions

California law restricts the amount of funds that local governments can collect through property tax, primarily through two mechanisms summarized below:

- Proposition 13 was adopted in 1978. It limits property tax assessed value increases at 2% per year and limits property tax revenue to 1% of assessed value (unless a higher rate is approved by voters). Properties can only be assessed at market value for new construction or when a property changes ownership.
- Proposition 4, commonly known as the Gann Limit, was adopted in 1978 and caps local revenue at 1979 expenditure levels, adjusted annually based on population and income.
- Proposition 98, adopted in 1992, requires each local government to set aside a portion of its tax revenues for the Educational Revenue Augmentation Fund (ERAF) to ensure that school districts meet minimum funding levels.[11] Between FY2019 and FY2025, an average of 11.9% of Town property tax revenue was designated for ERAF. However, it is important to note that currently any ERAF funding not needed to meet school funding minimums has been returned to the Town. If the State changes this policy it would reduce total property tax funding available to the Town.

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[11] The State is responsible for ensuring that schools receive at least minimum funding. The ERAF allocation reduces the State's funding obligation.

Annual Change Assumption: 5.2%, on average

Estimates of future property tax revenue were based on several factors, selected to account for State revenue restrictions and available information.

The primary information source used to estimate future property tax revenue was data from Santa Clara County on historical valuation trends. As stated above, Proposition 13 restricts changes in valuation except in cases of new construction or when property is bought and sold, so the team evaluated trends separately for new construction, changes in ownership, and other properties.

The team used trends for each of these categories, as well as reported FY2026 valuations and data prepared by a separate company, HdL Companies (HdL), on historical trends in the median value of new construction and the median sales price of homes, to estimate total valuation per year over the course of the model period. The model also assumes that 15% of property tax funds in the base year will be allocated to ERAF, based on Santa Clara County FY2026 budget allocations[12].

Finally, the model calculates the estimated Gann appropriation limit each year, based on a State law limiting property tax revenue that can be collected based on changes in population and income. The team estimated the Gann limit for each model year based on historical population and income trends reported by the United States Census Bureau and verified that the projected revenue did not hit that limit.

The annual change in projected revenue based on these assumptions varies from year to year based on the estimate for each valuation component: new construction, home sales, ERAF, and base valuation. On average, it increases approximately 5.2% per year between FY2027 and FY2036. The assumed growth for new construction considered the Town's Housing Element Plan and anticipated new housing units outlined in that plan. After further discussion with staff and Finance Commission members, there is uncertainty in how those units may be realized over time and whether they will meet state required affordability metrics. As such, the baseline model maintains a steady growth assumption for new residential development but relies on historical trend with a more moderate long-term outlook than the post-pandemic era given recent softness in real estate market activity.

The following table summarizes model assumptions.

[12] The County estimates a $3.2 million allocation to ERAF in 2026.

Table 10: Property Tax Performance History and Assumptions by Component

Property Tax Component	Five Year Average Annual Change[13]	Assumed Portion of Revenue	Assumed Annual Change	Comments
New Construction	12.5%	0.3%	0.0%	Assumed flat to be conservative due to variations in the change of value from year to year
Changes in Ownership	17.1%	2.8%	4.0%	Reduced to be conservative due to variations in the change of value from year to year
ERAF	19.1%	14.9%	6.9%[14]	Based on the average of the past two years to normalize post-pandemic volatility
Base Valuation	6.2%	81.9%	5.6%	Based on the average of the past two years to normalize post-pandemic volatility

Vehicle and License Fee (VLF) Backfill Property Tax

The VLF backfill is a payment from the State of California intended to reimburse local governments for losses due to a State VLF reduction. The annual amount allocated is based on the Town's assessed property valuation. The following table illustrates the category's historical trend for actual revenue collected, as well as the average annual change.

Table 11: VLF Backfill Property Tax Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$3,685,247	N/A
2020	$3,875,914	5.2%
2021	$4,052,672	4.6%
2022	$4,229,462	4.4%
2023	$4,555,700	7.7%[15]
2024	$4,906,019	7.7%
2025	$5,109,100	4.1%
Average		**5.6%**

[13] Based on Santa Clara County valuation reports

[14] Based on the average of the past two years to normalize post-pandemic volatility

[15] Higher increases in FY2023 and 2024 are aligned with higher increases in the Town' property valuation in those years.

2026 Budget: $5,377,328

Base Year Estimate: $5,557,685

Historically, since FY2019, General Fund revenue has consistently outperformed budget by approximately 3.4%. The model assumes the FY2026 base amount will be higher than the current budgeted amount by this average variance.

Potential Revenue Risks and Restrictions

VLF revenue is allocated from the State and is therefore subject to changes in State law. A future legislature could opt to reduce or eliminate this revenue source.

Annual Change Assumptions: 5.4%

VLF revenue is allocated based on property value. The project team used the property value assumptions discussed in the Property Tax section above to project VLF revenue. The model assumes a 5.4% average annual property value increase over the next 10 years.

Sales and Use Tax

The Town has two sources of sales tax revenue:

- The Town, like all California municipalities, receives 1% of the State's base sales tax rate (7.25%)
- The Town has adopted an additional 1/8 cent general sales tax (Measure G)

The following tables illustrate the category's historical sales tax revenue trends.

Table 12: Sales and Use Tax (non-Measure G) Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$7,930,021	N/A
2020	$6,535,034	-17.6%
2021	$6,794,218	4.0%
2022	$7,177,597	5.6%
2023	$7,507,068	4.6%
2024	$6,795,037	-9.5%
2025	$6,992,336	2.9%
Average		**-1.7%**

Table 13: Sales and Use Tax (Measure G) Revenue History[16]

Year	Actual Revenue	Annual Percent Change
2019	$0	N/A
2020	$0	N/A
2021	$1,139,386	N/A
2022	$1,306,076	14.6%
2023	$1,299,409	-0.5%
2024	$1,276,698	-1.7%
2025	$1,338,642	4.9%
Average		**4.3%**

2026 Budget:	***Non-Measure G:***	***$6,639,081***
	Measure G:	***$1,298,825***
Base Year Estimate:	***Non-Measure G:***	***$7,780,826***
	Measure G:	***$1,329,000***

The Town engaged a separate firm, HdL, to forecast sales tax in FY2026. HdL's forecasts were used to inform the base estimate for 2026 as well as future growth detailed below. There is a significant increase in the non-Measure G base estimate for 2026. This is driven by the most recent projections from HdL, which include proprietary, confidential local economic data to inform estimates. This information was not known at the time of budget adoption.

Potential Revenue Risks and Restrictions

Sales tax revenue is closely tied to economic conditions. An economic downturn would have a significant impact on revenue in this category. Additionally, the 1% of the State's sales tax revenue is defined by State legislation and is subject to change by the Legislature.

Annual Change Assumptions: 2.0% (weighted average)

Projections of sales tax revenue are based on industry data as well as trend projections prepared by the Town's economic advisor. The model projects revenue by industry to allow each industry's revenue trends to be separately modeled.

[16] This includes all Measure G revenue, not just the revenue allocated to the General Fund.

Previously, an Economic Review prepared for the Town by an outside firm, MuniServices, provided information on the Town's historical sales tax revenue trends by industry along with estimates for future sales tax collection. As the Town transitions to a new economic advisor (HdL), Raftelis relied on both historical MuniServices reports as well as the first, and most recent, HdL report to establish a framework for detailing the various components that comprise overall sales tax revenue collection.

The industry components of sales tax revenue are detailed in the table below. Historically, the largest generators of sales tax revenue have been the Food and General Retail industries, and they are assumed to remain the largest generators moving forward.

Table 14: Sales Tax Revenue Historical Performance and Assumptions by Industry, as Reported by MuniServices

Industry	Five Year Average Annual Change	Assumed Portion of Revenue[17]	Assumed Annual Change	Comments
Food Products	5.4%	28.7%	2.0%	Based on HdL projection
General Retail	-1.6%	21.1%	2.0%	Based on HdL projection
Transportation	-8.9%	19.6%	2.5%	Based on HdL projection, reduced slightly based on past history (HdL generally projects 3.0-3.5% per year)
County Pool	-4.7%	19.2%	2.0%	Based on HdL projection, reduced slightly based on past history (HdL generally projects 3.0% per year)
Business to Business	0.3%	4.8%	1.0%	Based on HdL projection, reduced slightly based on past history (HdL generally projects 2.2-2.8% per year)
Misc.	-33.0%	3.9%	0.0%	Kept flat due to past volatility
Construction	7.5%	2.6%	2.5%	Based on HdL projection

The historic volatility of sales tax collections and dynamic local economic conditions led the project team to take a conservative approach to forecasting the Town's second-largest revenue source. The baseline model incorporates the significant increase to 2026 base estimates and then uses a lower annual growth rate assumption compared to HdL. The first report from HdL suggests higher growth across each of the industries noted in the table above during 2026-2027 and then settles to a blended average that is slightly below 3%. Some industries like transportation, which have experienced decline in past years due to higher use of electric vehicles, and construction, assume a higher rate of growth (2.5%) because of known development activity expected to have a positive influence on collections. Other sources like general retail and food products rely more on regional inflation trends for cost of goods and no significant variation or increase to the volume of goods purchased from historical experience.

[17] Based on five-year historical average for that industry's representative share of overall sales tax revenue to the Town.

Licenses & Permits

The following table illustrates the Town's historical Licenses & Permits revenue, as well as the average annual change. The significant revenue increase in FY2025 is due to a change in how the Town accounts for Solid Waste revenue; before FY2025, the Town classified it as a Franchise Fee. The revenue collected by the Town from the Solid Waste Joint Powers Agreement (JPA) also increased from prior years as a result of a recently updated valuation report used to determine payment amount.

Table 15: Licenses & Permits Actual Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$3,044,490	N/A
2020	$2,673,706	-12.2%
2021	$3,003,475	12.3%
2022	$3,614,650	20.3%
2023	$3,283,848	-9.2%
2024	$3,993,247	21.6%
2025	$6,681,657	67.3%
Average		**16.7%**

2026 Budget: $6,322,712

Base Year Estimate: $6,322,712

Historically, actual General Fund revenue has been 12.1% higher than budget, on average, but there has been significant volatility after the pandemic. This is coupled with the Solid Waste revenue transfer, updated valuation, and in the 2026 budget changes to permit fees that also increased overall revenue collected in this category. The 2026 budget is in line with most recent 2025 actuals and is used as the base estimate in the forecast model.

Potential Revenue Risks and Restrictions

The amount of License & Permit revenue received by the Town can vary based on external factors, such as the amount of development occurring in the community, but the Town also has the ability to revise fees as needed to cover costs. Additionally, less revenue also means a lower cost to process license and permit applications.

Annual Change Assumptions: 0.4%

The types of licenses and permits issued vary from department to department, so the project team used revenue history by department to estimate future trends. For the Community Development Department, historical permit trends were also used to inform the projection. Other departments' revenue is projected based on past history, due to lack of additional available data.

Although Community Development Department Licenses & Permit revenue has generally been increasing in recent years, with an average increase of 19.4% between FY2019 and FY2025, the number and value of permits has been decreasing, as illustrated in the table below. Because of this decline, it is assumed that Community Development Licenses & Permit revenue will have minimal growth over the next ten years.

Table 16: Building Permit History[18]

Year	Number of Permits	Annual Percent Change	Permit Value	Annual Percent Change
2021	1,196	N/A	$148,527,983	N/A
2022	1,261	5.4%	$156,227,403	5.2%
2023	1,202	-4.7%	$92,855,563	-40.6%
2024	1,019	-15.2%	$94,598,614	1.9%
2025	980	-3.8%	$103,021,665	8.9%
Average		**-4.6%**		**-6.1%**

The following table illustrates assumed annual Licenses & Permits revenue change by department. Police and Solid Waste (non-departmental) revenue are assumed to be flat with the most recent solid waste valuation adjustment reflected in the 2026 base.

Table 17: Licenses & Permits Revenue Assumptions by Department

Department	Five Year Average Change	Average Portion of Revenue	Assumed Annual Change	Comments
Administrative Services	91.7%	0.1%	2.0%	Assumed lower due to volatility
Community Development	19.4%	59.0%	0.5%	Assumed lower due to permit trends
Police	-6.9%	1.8%	0.0%	Assumed flat due to volatility
Parks and Public Works	10.0%	24.8%	0.5%	Assumed lower due to volatility
Non-Departmental	1663.2%	14.2%	0.0%	Significant increase reflects Solid Waste revenue- assumed flat due to volatility

Franchise Fees

The following table illustrates the Town's historical Franchise Fee revenue, as well as the average annual change. The significant revenue decrease in FY2025 is due to a change in how the Town accounts for Solid Waste revenue; before FY2025, the Town considered it a Franchise Fee but is now categorized under Licenses & Permits.

[18] Provided by Town staff

Table 18: Franchise Fees Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$2,475,916	N/A
2020	$2,495,792	0.8%
2021	$2,499,463	0.1%
2022	$2,822,515[19]	12.9%
2023	$3,074,624	8.9%
2024	$2,547,012	-17.2%
2025	$1,057,484	-58.5%
Average		**-8.8%**

2026 Budget: $1,043,730

Base Year Estimate: $1,043,730

Historically, General Fund revenue has been 8.3% higher than budget; however, the recent base adjustment to remove solid waste JPA revenue impacts the future growth assumptions. For the baseline model, the 2026 budget is used as the initial base year estimate since it is in line with actual revenue collected in 2025 after the solid waste revenue transition.

Potential Revenue Risks and Restrictions

Franchise fee revenue depends on private companies' use of public infrastructure and can vary depending on the companies' needs and economic conditions.

Annual Change Assumptions: 1.7%

When Solid Waste revenue is not considered, annual increases in past years have ranged from 0.3% to 8.7%, as illustrated below. The project team believes that past history is the best available indicator to predict future revenue. Annual increases are assumed at 1.7%, which is the average over the past seven years when the outlier year, 2023, is removed.[20]

[19] Increased revenues in FY2022 and 2023 were largely due to increases in Solid Waste revenue, which went from $1.6 million in FY2021 to $1.9 in FY2022, then to $2.1 million in FY2023, only to reduce to $1.5 million in 2024.

[20] The increase is largely driven by a 23% increase in PG&E Franchise Fee revenues for that year.

Table 19: Franchise Fees Actual Revenue History (No Solid Waste Revenue)

Year	Actual Revenue	Annual Percent Change
2019	$892,980	N/A
2020	$898,636	0.6%
2021	$925,621	3.0%
2022	$941,647	1.7%
2023	$1,023,289	8.7%
2024	$1,053,827	3.0%
2025	$1,057,484	0.3%
Average		**2.9%**

Town Services

This revenue category essentially reflects charges for services where the Town has some cost recovery component. The two highest-revenue categories of Town services, accounting for more than $1 million in revenue each in 2025, were policing services for Monte Sereno and building plan reviews.

The following table illustrates the category's historical revenue, as well as the average annual change.

Table 20: Town Services Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$4,440,606	N/A
2020	$4,373,603	-1.5%
2021	$4,778,695	9.3%
2022	$5,310,271	11.1%
2023	$4,631,325	-12.8%
2024	$5,913,520	27.7%
2025	$5,749,895	-2.8%
2026	N/A	N/A
Average		**5.2%**

2026 Budget: $5,736,735

Base Year Estimate: $5,736,735

Actual revenue has averaged about $5 million annually, outperforming budget by approximately 12.1% on average. In 2026 the Town made a significant adjustment to the base budget that is reflective of actual collections the past two years. This is the base estimate used in the forecast.

Potential Revenue Risks and Restrictions

Like sales tax, this is a customer-driven revenue source that has experienced greater volatility over the past seven years. The Town has maintained a conservative budget approach for this revenue source given the difficulty predicting the volume of customer activity from year to year.

Annual Change Assumptions: 3.0%

The types of services offered vary from department to department, so the project team used revenue history by department to estimate future trends. In many departments revenue has varied significantly from year to year. The projections in the model are intended to smooth out this growth from year to year, while also generally assuming a conservative projection to avoid over-estimating revenue with future economic uncertainty.

The following table illustrates assumed annual revenue change by department.

Table 21: Town Services Revenue Historical Performance and Assumptions by Department

Department	Five Year Average Change	Average Portion of Revenue	Assumed Annual Change	Comments
Administrative Services	8.9%	2.2%	5.0%	Assumed lower than average due to past variance
Community Development	1.7%	40.1%	2.0%	Assumed in line with past average
Police	7.4%	24.2%	5.0%	Assumed lower than average due to past variance
Parks and Public Works	9.2%	30.9%	3.0%	Assumed lower than average due to past variance
Non-Departmental	-11.3%	2.6%	0.0%	Assumed flat due to past variance

The following table compares the highest revenue line items that are categorized as Town Services versus those categorized as License & Permits.

Table 22: Town Services and Licenses & Permits Top Revenue Source, FY2025

Town Services	Licenses and Permits
PD Services for Monte Sereno- $1,135,514	Wasteholder Encroachment Fee (Solid Waste)- $2,297,703
Plan Check- $1,043,926	Building Permit Fees- $2,205,805
Plan Check Building- $529,251	Planning Permits- $902,524
Engineering Review Surcharge- $323,972	Encroachment Permits- $459,831
Environmental Impact- $277,397	Tree Removal Permits- $155,535

Business License Tax

The following table illustrates the Town's historical Business License Tax revenue, as well as the average annual change. The revenue has significant year-to-year variation due to economic factors as well as delays in revenue collection. Revenue from one of the largest businesses in the Town was delayed due to an appeal of the tax rate, for example, which is one of the reasons for the significant variation in recent years.

Table 23: Business License Actual Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$1,526,894	N/A
2020	$1,357,080	-11.1%
2021	$1,386,943	2.2%
2022	$1,481,667	6.8%
2023	$2,361,862	59.4%
2024	$1,519,960	-35.6%
2025	$2,975,721	95.8%
Average		**19.6%**

2026 Budget: $2,493,992

Base Year Estimate: $2,470,000

The Town commissioned HdL to project future Business License Tax revenue. The firm created aggressive, conservative, and moderate projection scenarios. Under the moderate scenario, a total of $2.47 million in revenue is estimated for FY2026. HdL bases this forecast on actual payments received in the beginning of the fiscal year as well as projected trends for the remaining months. The forecast leverages this estimate as the 2026 base.

Potential Revenue Risks and Restrictions

The variation from year to year illustrated in the table above illustrates the volatility of this revenue source. It is influenced by economic trends as well as Town tax policy, potential court challenges, and other external factors.

Annual Change Assumptions: 1.5%

Business License Tax revenue has increased significantly in the past years, but there has also been a great deal of variation from year to year. HdL acknowledges this volatility in its projections and forecasts three scenarios: an aggressive estimate, a moderate estimate, and a conservative estimate. HdL's assumption for a moderate Business License Tax growth rate is 1.5% per year, and this assumption is used for the model.

This estimate may be somewhat conservative when compared against past trends in the Consumer Price Index (CPI) for the San Francisco region. The CPI can be considered an indicator of long-term growth, and the past five years of CPI growth have averaged 3.8% per year, as illustrated below. However, we believe that HdL's estimate is appropriate given future economic uncertainty.

Table 24: San Francisco Region CPI History

Year	Annual CPI: All Costs	Percent Change
2020	300.084	1.7%
2021	309.721	3.2%
2022	327.06	5.6%
2023	339.05	3.7%
2024	348.417	2.8%
Average		**3.8%**

Transient Occupancy Tax

The Town charges a Transient Occupancy Tax on hotels and other short-term lodging. Revenue is based on the nightly room rate and number of days at each establishment. The following table illustrates the category's historical revenue, as well as the average annual change.

Table 25: Transient Occupancy Tax Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$2,692,043	N/A
2020	$1,869,685	-30.5%
2021	$1,044,820	-44.1%
2022	$1,895,064	81.4%
2023	$2,228,190	17.6%
2024	$2,367,653	6.3%
2025	$2,417,630	2.1%
Average		**5.4%**

2026 Budget: $2,422,390

Base Year Estimate: $2,412,087

Actual Transient Occupancy Tax revenues have been an average of 10.4% higher than budgeted over the last seven years. However, one of the hotels in the community closed in 2026, and this change will likely reduce the amount of revenue collected from the Transient Occupancy Tax. The Town provided us with the revenue history per establishment and based on this we calculated that the closure will mean a reduction of approximately $260,000 in FY2026. Based on these assumptions, we estimate a base year revenue of approximately $2.4 million.

Potential Revenue Risks and Restrictions

Transient Occupancy Tax revenue varies significantly from year to year, as illustrated above. It is tied to the level of tourism and business travel in the community, which is heavily influenced by economic trends. Additionally, the number of hospitality establishments in the Town also influence the amount of revenue generated.

Annual Change Assumptions: 3.0%

Transient Occupancy Tax revenue is projected forward based on the most recent two years of available historical data on revenue by establishment. Older data is not used due to the impact of the pandemic on hotel occupancy. Data for the establishment that closed was not considered when projecting future trends.

Intergovernmental Revenue

The Town receives some intergovernmental revenue, such as state and federal grants. The following table illustrates the category's historical revenue, as well as the average annual change.

Table 26: Intergovernmental Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$945,191	N/A
2020	$1,094,075	15.8%
2021	$1,185,516	8.4%
2022	$1,263,352	6.6%
2023	$1,553,397	23.0%
2024	$1,157,225	-25.5%
2025	$1,357,593	17.3%
Average		**7.6%**

2026 Budget: $838,936

Base Year Estimate: $1,300,000

Actual intergovernmental revenue has been an average of 29.6% higher than budgeted revenue over the past seven years. The budget in FY2026 is somewhat lower than the past, at $838,936 compared to more than $950,000 in previous years. Political and economic uncertainty justifies a lower budget estimate, but the model seeks to normalize revenues over the 10-year projection period. For this reason, we are assuming a base year revenue of $1.3 million to align with previous years' actual revenue.

Potential Revenue Risks and Restrictions

Intergovernmental revenue is dependent on the state of the economy, as well as the philosophies and priorities of the governments in power. These external factors are difficult to predict, which is one reason why revenues are assumed to be flat for this category as discussed below.

Annual Change Assumptions: 0.0%

Intergovernmental revenue is assumed to be flat due to past volatility and to political uncertainty on the state and federal levels.

Fines & Forfeitures

The Town receives revenue from fines levied for infractions, as well as asset forfeitures. The following table illustrates the category's historical revenue, as well as the average annual change.

Table 27: Fines & Forfeitures Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$510,266	N/A
2020	$271,117	-46.9%
2021	$103,467	-61.8%
2022	$319,170	208.5%
2023	$416,951	30.6%
2024	$480,634	15.3%
2025	$420,127	-12.6%
Average		**22.2%**

2026 Budget: $315,200

Base Year Estimate: $440,000

Actual revenue has consistently been higher than budgeted in recent years, with an average variance of 27.7%. To estimate a reasonable base year revenue, the team averaged the actual fine & forfeiture revenue for the past three years, which translates to approximately $440,000. This is somewhat higher than the budgeted figure for FY2026 but was chosen to establish a reasonable basis for future projections, beyond year-over-year volatility.

Potential Revenue Risks and Restrictions

Fines and forfeiture revenue can vary significantly, as illustrated above, because it depends on the frequency with which individuals incur fines and other penalties. The Town does have some ability to influence revenue by adjusting the amount of the fines and by determining the level of enforcement.

Annual Change Assumptions: 0.8%

Revenue in this category is largely influenced by the frequency of fines incurred, which can vary significantly from year to year. It is reasonable, however, to assume that fines incurred will increase over time somewhat proportionally to population. The average population growth over the past two years of available United States Census data (2023 and 2024) was 0.8%, so it is assumed that fine & forfeiture revenue will increase by 0.8% per year.

It is important to reiterate that revenue in this category could be influenced by policy and practice changes, such as new or increased fines or increased enforcement. The model assumes no changes in fines or enforcement levels in the base scenario, but users can project the impact of potential changes moving forward.

Investment Income

The Town also receives income from funds it has invested. Investment income for the General Fund model excludes earnings from the pension trust designated to support the Town's long-term pension liability. Earnings are generated from operating cash accounts as well as pooled cash funds invested in the state Local Agency Investment Fund (LAIF). The interest rate environment has gone through a period of significant change over the past several years, emerging from near 0% rates for cash-related investments to spikes in interest rates to help curb inflation after the pandemic, and most recently steady reductions from the Federal Reserve. The following table illustrates the category's historical revenue, including GAAP-based revenue that includes required mark-to-market non-cash accounting adjustments and interest income without this adjustment as a proxy for cash-based collections.

Table 28: Investment Income Revenue History

Year	Actual Revenue	Annual Percent Change	Actual Revenue (No Mark-to-Market Adjustment)	Annual Percent Change
2019	$1,445,640	N/A	$801,728	N/A
2020	$2,238,102	54.8%	$1,145,537	42.9%
2021	$58,250	-97.4%	$838,649	-26.8%
2022	($1,404,526)	-2511.2%	$610,975	-27.1%
2023	$584,171	-141.6%	$580,975	-4.9%
2024	$2,597,723	344.7%	$885,477	52.4%
2025	$2,935,466	13.0%	$1,733,643	95.8%
2026	N/A	N/A	N/A	N/A
Average		**-389.6%**		**22.0%**

2026 Budget: $1,567,774

Base Year Estimate: $1,567,774

The model maintains a base estimate equal to the 2026 budget. This estimate is consistent with 2025 earnings.

Potential Revenue Risks and Restrictions

The amount of income generated by the Town's investments is dependent on market changes. It can be volatile from year to year, as illustrated above, and in an economic downturn the Town risks a significant reduction in revenue.

Annual Change Assumptions: 2.0% for LAIF and 2.8% remaining cash investments

There are two offsetting factors influencing the projected interest earnings over the next ten years. First, the assumption for interest earned on investment balance is split between a steady LAIF balance of $15m returning 2.0% on average over the forecast period and approximately $45m of investment account balance that is expected to decline over the forecast period as the projected structural deficit will reduce fund balance and cash on hand for the Town. This declining balance, however, is expected to return interest earnings of approximately 2.8% annually. The interest rate assumptions are lower than the most recent rate of return the Town has experienced of 3.4%. This is influenced by recent Federal Reserve actions to reduce rates.

Actual interest earnings collected by the Town declines over the ten-year period from an estimated $1.5m in 2027 to $700,000 in 2036. This is driven by a lower investment balance of $65 million today to approximately $30 million in 2036. This decline assumes the Town will rely more on fund balance to meet balanced budget requirements, decreasing the amount of cash available to invest.

Other Revenue

The final external revenue category in the model encompasses all revenue not falling into another category, such as donations or property sales. The following table illustrates the category's historical revenue, as well as the average annual change.

Table 29: Other Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$6,575,936	N/A
2020	$2,731,171	-58.5%
2021	$3,550,564	30.0%
2022	$2,410,531	-32.1%
2023	$2,755,697	14.3%
2024	$3,156,921	14.6%
2025	$2,517,861	-20.2%
Average		**-8.7%**

2026 Budget: $2,188,465

Base Year Estimate: $2,800,000

The Town's budgeted revenues in this category for FY2026 are lower than FY2025, reflecting the decrease that took place between FY2024 and FY2025. This is appropriate for the FY2026 budget but may be artificially low if used as the basis for future projections. Instead, the project team used the average revenue for the past three years, approximately $2.8 million, as a basis for future projections.

Potential Revenue Risks and Restrictions

There are a variety of revenue sources in this category, many of which vary significantly from year to year. This impacts the Town's ability to reliably predict future revenues.

Annual Change Assumptions: 0.0%

The base year assumption is intended to normalize revenue projections in this category based on past years' average, but volatility in annual revenue makes it difficult to predict future revenues. For the purposes of the model, revenue is assumed to be flat in the base scenario.

Transfers In

Some General Fund revenue is transfers from other Town funds. The following table illustrates the category's historical revenue, as well as the average annual change.

Table 30: Transfers In Revenue History

Year	Actual Revenue	Annual Percent Change
2019	$1,578,911	N/A
2020	$599,669	-62.0%
2021	$652,056	8.7%
2022	$633,352	-2.9%
2023	$538,536	-15.0%
2024	$564,910	4.9%
2025	$812,411	43.8%
Average		**-3.7%**

The two largest sources of transfers are the General Fund Appropriation Reserve (GFAR) Fund 411 and the Gas Tax Fund; all other transfer amounts have historically been $10,000 or less. The GFAR Fund is used to finance capital projects, and the transfers into the General Fund are intended to represent excess unspent funds in a given year. The Gas Tax Fund transfers go towards operating costs that can legally be paid out of Gas Tax revenue, such as the cost of mowing lawns and trimming trees in Town Right-Of-Way. Historically, the Town has transferred a standard amount year for this purpose.

2026 Budget: $562,411

Base Year Estimate: $321,280

The Town has historically transferred a set amount from most funds each year, as shown in the table below, and these amounts are also assumed in the base budget. The exception is the GFAR Fund 411, where amounts have varied. The GFAR Fund is used to finance capital projects, and over the past seven years GFAR transfers into the General Fund have averaged 6.9% of expenditures. We applied this 6.9% to the average annual assumed GFAR capital expenditures over the model period and based on these assumptions an average of approximately $321,280 is expected to be transferred into the General Fund. This is assumed as the base revenue for FY2026.

Table 31: Assumed Transfers In by Fund, FY2026

Fund	FY2026 Transfers In
General Fund Appropriated Reserve Fund 411	$200,970
Gas Tax Fund	$106,000
Traffic Mitigation Fund	$10,000
Kennedy Assessment District Fund	$1,510
Vasona Assessment District Fund	$1,430
Santa Rosa Assessment District Fund	$660
Blackwell Assessment District Fund	$460
Hillbrook Assessment District Fund	$250
Total	**$321,280**

Annual Change Assumptions: 0.0%

The Town has had a historical practice of transferring in set amounts from various other funds, as discussed above, with the transfers generally remaining flat from year to year. The exception is GFAR transfers, but the base year assumption is the normalized annual projected transfer for the entire model period. For this reason, all transfers are assumed to remain flat.

Personnel Expenditures

The following sections detail personnel-related expenditures including salaries and overtime (e.g., wages) and benefits, including healthcare and retirement.

Personnel Costs- Salary

Personnel-related costs are the single largest driver of operating expenses for the Town. Wages, including salaries and overtime account for nearly 40% of total budgeted expenditures in 2026. Wages and benefit costs are nearly 70% of total cost. To determine the underlying assumption for personnel – salaries cost, the project team reviewed actual expenditure history since 2019 alongside the change in authorized staffing levels over that same period. The following table illustrates these trends.

Table 32: Personnel - Salary Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change	Authorized Staffing	Annual Percent Change	Cost per FTE	Annual Percent Change
2019	$17,223,545	N/A	148.99	N/A	$115,602	N/A
2020	$18,175,614	5.5%	149.63	0.4%	$121,470	5.1%
2021	$18,987,346	4.5%	150.00	0.2%	$126,582	4.2%
2022	$18,306,124	-3.6%	150.24	0.2%	$121,846	-3.7%
2023	$20,011,354	9.3%	153.26	2.0%	$130,571	7.2%
2024	$21,186,554	5.9%	152.51	-0.5%	$138,919	6.4%
2025	$21,813,266	3.0%	152.50	0.0%	$143,038	3.0%
Average		**4.1%**		**0.4%**		**3.7%**

Personnel Costs- Vacancy Savings

Budgeting for vacancy savings is a tool to improve realistic forecasting, especially in an environment of financial constraint. The underlying assumption should be rooted in actual experience for the Town and consider, where appropriate, department specific turnover rates that may have an outsized impact on overall savings, such as Police. The challenge is determining a vacancy factor that does not prevent hiring or influence policy/service level decisions. In other words, vacancy savings occur naturally each year based on normal staffing churn (e.g., time to hire, retirements, voluntary resignations etc.). Where the savings are generated can vary from year to year. Therefore, the estimate should rely on Town-wide experience without impacting individual department hiring practices to meet service level expectations.

Raftelis reviewed the recent budget-to-actual variance for personnel cost (excluding OPEB) to get a sense of annual vacancy savings generated compared to the Town's current vacancy savings estimate of $2.2 million, or 4.6%. The following table compares budgeted personnel costs (not including budgeted vacancy savings) to actual costs in order to understand the variance from year to year.

Table 33: Budgeted vs. Actual Personnel Costs, FY2019-2025[21]

Year	Budgeted Personnel Costs[22]	Actual Personnel Costs	Variance ($)	Variance (%)
2019	$27,182,218	$26,791,635	$390,583	1.4%
2020	$30,910,360	$28,563,165	$2,347,195	7.6%
2021	$31,578,999	$29,954,224	$1,624,775	5.1%
2022	$32,269,661	$29,651,637	$2,618,024	8.1%
2023	$35,472,824	$32,306,067	$3,166,757	8.9%
2024	$36,166,293	$34,234,940	$1,931,353	5.3%
2025	$38,518,446	$36,315,240	$2,203,206	5.7%
Average			**$2,040,270**	**6.0%**

The vacancy savings percentage estimate falls below historical experience; however, the amount is close to the historical average. The Town should exercise caution with this budgetary estimate going forward. Attrition data needs to be evaluated annually to see if staffing trends have changed and if so, adjust this estimate to remain conservative instead of in-line with actual experience. Reductions to the vacancy savings will *increase* the annual budget gap. In addition, part of the historical experience considers overtime and pension costs. While these costs are certainly related to personnel, they are not always linear in terms of impact. Overtime may spike due to service response needs and pension cost also factors in amortization of long-term liability based on market performance in addition to covered payroll.

Bargaining Units

Town staff fall within five different labor groups, with three groups governed by collective bargaining agreements or memorandums of understanding (MOUs). The MOUs indicate contractual salary increases over a set period of time. For purposes of the baseline forecast, Raftelis considered each of these labor groups individually and the associated historical trend for personnel costs. The current MOUs expire at the end of FY 2027. Details regarding salary assumptions for each of these labor groups are provided below.

2026 Personnel – Salary Budget without Vacancy Savings: $25,381,471

2026 Personnel – Salary Budget with Vacancy Savings: $23,182,932

Base Year Estimate: $22,794,863

For the long-term forecast, Raftelis chose to rely on historical trend and not include a vacancy savings factor. The base estimate for 2026 considers the most recent actual personnel cost of $21.8 million and assumed base increase of 4.5%.

[21] Includes salary, overtime, other benefits, and CalPERs pension.

[22] Does not include budgeted vacancy savings

Annual Change Assumptions: 3.9%, weighted average

The model assumes that the number of positions remains unchanged over the course of the model period.[23] Costs are projected forward based on the average annual salary increase by bargaining unit[24], the total number of positions per bargaining unit, and the average annual salary per position. All data was provided by Town staff. Based on these assumptions, salary costs are assumed to increase by an average of 3.9% per year.

The following table summarizes data used to create these assumptions.

Table 34: Salary Assumptions by Bargaining Group

Group	Average Salary Range Increase, Most Recent Three Years of Data	Total Authorized Positions, FY2026	Average Hourly Salary, FY2026
American Federation of State, County and Municipal Employees (AFSCME)	4.0%	14	$47.93
Los Gatos Police Officers' Association	5.2%	39	$81.72
Los Gatos Town Employees' Association	3.0%	56	$58.40
Confidential	3.7%	13	$57.25
Management	3.7%	32	$96.56

Personnel Costs- Overtime

As mentioned previously, overtime costs can vary and are typically tied to overall trends in staffing. Often, overtime costs run higher when staffing levels are lower (higher vacancy rates). The Town's budget for overtime has consistently lagged actual expenditures as illustrated in the following table.

Table 35: Overtime Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change	Adopted Budget
2019	$707,046	N/A	$387,204
2020	$708,955	0.3%	$477,890
2021	$882,421	24.5%	$424,560
2022	$1,134,177	28.5%	$472,270
2023	$1,373,672	21.1%	$604,678
2024	$1,342,518	-2.3%	$578,856
2025	$1,333,709	-0.7%	$599,171
Average		**11.9%**	

[23] The Excel model does include mechanisms to allow the user to project the cost of additional positions.

[24] Actual increases are used where negotiated agreements are available.

2026 Budget: $657,310

Base Year Estimate: $1,371,566

Overtime costs grew significantly between 2021 and 2023. This is likely correlated with lower staffing levels after the pandemic. As staffing levels have stabilized, overtime costs have also remained more consistent at approximately $1.3 million annually. Maintaining a historical trend-based methodology, the 2026 estimate for the General Fund forecast assumes an amount in line with recent experience.

Annual Change Assumptions: 1.0%

The project team analyzed trends in average overtime per authorized position in recent years to project future costs. Overtime per position has varied significantly over time, as illustrated below, but has decreased in recent years. The baseline model assumes no new positions are added; therefore, future overtime costs will be a factor of vacancy rates, changes in service level expectations (without corresponding funding), and the underlying base wage for overtime eligible positions. Because overall salary growth is projected to increase, a corresponding increase is expected for overtime. The projected growth is smaller than anticipated salary growth, assuming staffing levels remain consistent with recent experience and the actual amount of overtime hours incurred (overtime per person) continues to decline slightly.

Table 36: Historical Overtime Costs by Authorized Position

Year	Total Positions	Overtime Per Position	Annual Change
2019	148.99	$4,746	N/A
2020	149.64	$4,738	0%
2021	150.81	$5,851	24%
2022	150.24	$7,549	29%
2023	153.25	$8,964	19%
2024	152.50	$8,803	-2%
2025	152.50	$8,746	-1%
Average			**11.4%**

Personnel Costs- CalPERS

Current and former Town employees participate in the state's public pension fund – CalPERS Plan participation varies depending on when employees entered the system and the nature of their employment (general or public safety). The Town relies on actuarial consultants to provide estimates for annual contributions. These estimates include multiple factors such as current Town payroll for covered employees (those eligible to participate), accrued pension liability resulting from pension assets underperforming relative to plan assumptions, and the expected benefit payment for each vested employee based on demographics and plan features.

Similar to other personnel cost drivers, the project team first assessed actual pension cost paid annually to understand underlying growth trends. This data along with actuarial estimates provided by Foster and Foster® informed assumptions for expected future pension costs. The following table illustrates actual CalPERS costs, as well as the average annual change.

Table 37: CalPERS Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$5,282,681	N/A
2020	$6,059,646	14.7%
2021	$6,374,119	5.2%
2022	$6,531,958	2.5%
2023	$7,091,215	8.6%
2024	$7,431,198	4.8%
2025	$8,220,124	10.6%
Average		**7.7%**

2026 Budget: $9,907,119

Base Year Estimate: $9,114,430

The table below details how the 2026 base amount was determined relying on the actuarial estimates from the March 2025 Foster and Foster Report. Included in that report were estimates for covered payroll that support the model's 2026 base estimate for contributions.

Table 38: CalPERS Covered Payroll and Contribution by Group

Employee Group[25]	Employee Count	2025/26 Payroll	2025/26 Contribution[26]	FY2026 Base Estimate
Miscellaneous	114	$15,215,000	30.0%	$4,564,500
Safety	36	$6,842,000	66.5%	$4,549,930
Total	**150**	**$22,057,000**	**N/A**	**$9,114,430**

Annual Change Assumptions: 4.9% on average (varies by year)

The model projects annual covered payroll for Safety and miscellaneous employees based on the assumptions detailed in the salary section above. The Foster and Foster report projects the percentage of payroll contributions needed for both safety and miscellaneous employees over the next 10 years to cover normal cost and the unfunded accrued liability (UAL) payment. This percentage (50th percentile) is used to determine pension cost for the Town over the next ten years.

[25] Includes proportionate share of classic members utilizing final average contribution (FAC) of one year or three years as well as members who joined after the 2013 Public Employees' Retirement Reform Act (PEPRA).

[26] Includes normal cost and unfunded accrued liability (UAL) payment

It is important to note the baseline model does not consider changes to underlying pension assumptions, such as the discount rate used for market rate of return on assets. This type of change would be modeled as a scenario and may have a significant impact on the required contribution from the Town each year. To hedge against growing unfunded liability the Town has also established a pension trust, for which annual contributions are factored into the baseline model projection for the General Fund. Additional details can be found in that expenditure category section.

Figure 8: Foster and Foster Miscellaneous Employer Pension Contributions FY2026-2036

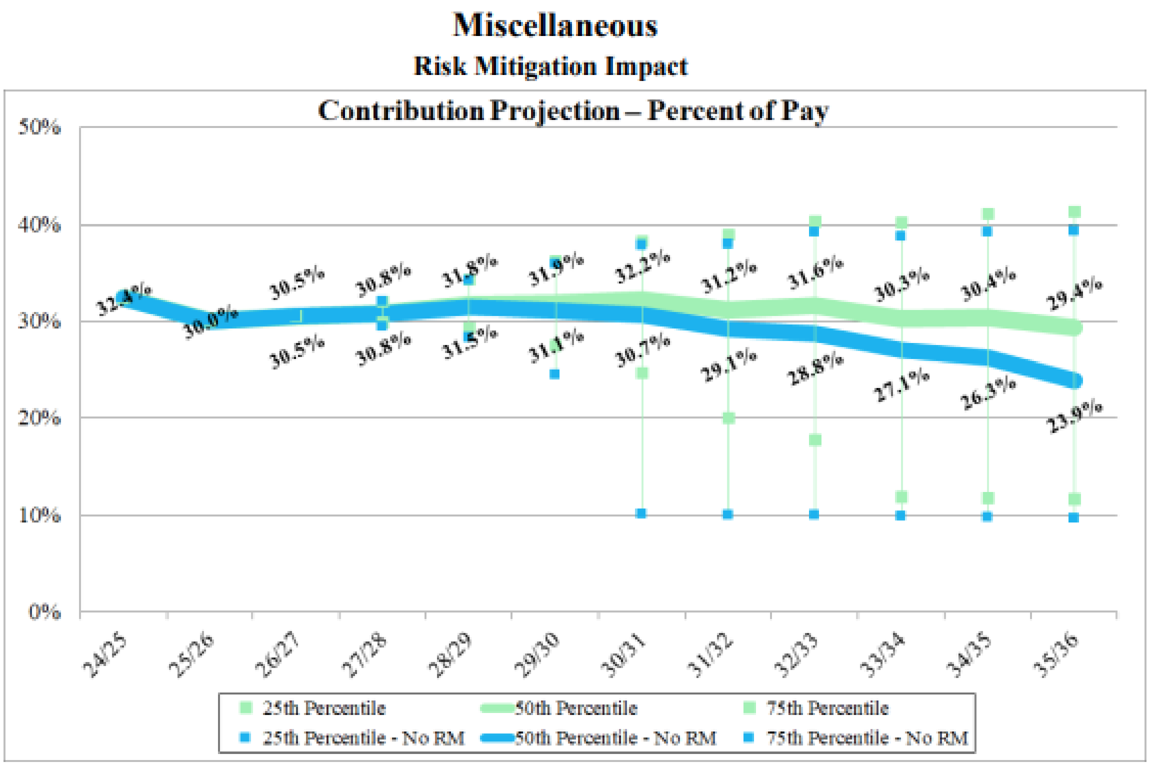
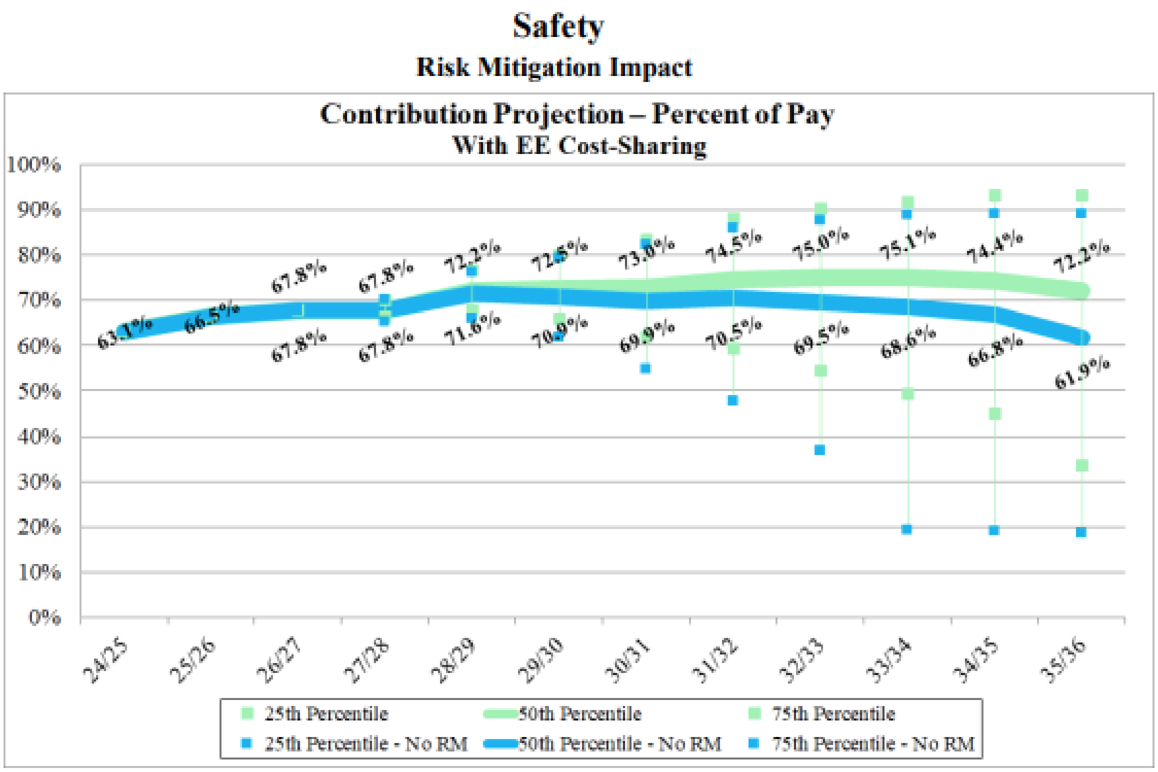


Figure 9: Foster and Foster Safety Employer Pension Contributions FY2026-2036



Personnel Costs- Other Benefits

The other benefits category encompasses costs primarily related to health insurance (including dental and vision) as well as other benefits such as disability and group life insurance. The Town is fully insured, paying a fixed premium to an insurance carrier to provide medical coverage for employees. The following table illustrates the category's historical actual costs, as well as the average annual change.

Table 39: Other Benefits Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$3,578,363	N/A
2020	$3,618,950	1.1%
2021	$3,710,338	2.5%
2022	$3,679,378	-0.8%
2023	$3,829,826	4.1%
2024	$4,274,670	11.6%
2025	$4,948,141	15.8%
Average		**5.7%**

2026 Budget: $6,265,770

Base Year Estimate: $5,548,868

Benefit costs were dormant through the pandemic years and then rebounded to above average increases, particularly within the past two years. The lower actual costs experienced in 2020 – 2022 are not anticipated in future years. Rather, it is expected that healthcare costs will settle into historic growth patterns of 6-8% employer cost increases annually. For this reason, the 2026 base estimate in the forecast is $5.5 million, reflecting approximately a 12% increase from the 2025. This is base assumes a "catch up" from the deflated costs experienced previously and is below the Town's 2026 budget. The growth in costs from this base estimate are not expected to increase as much as explained below.

Annual Change Assumptions: 6.6%

The project team looked at trends in healthcare costs from two industry experts, PricewaterhouseCoopers (PwC) and the National Association of Insurance Commissioners (NAIC), as well as the Town's own experience with costs the past several years to develop the annual benefit cost projection of a 6.6% annual increase.

Table 40: Industry Healthcare Cost Trends

Year	PwC Annual Change in Group Plan Healthcare Costs	NAIC Annual Change in Insurance Premiums
2021	7.0%	Not available
2022	5.5%	5.5%
2023	8.0%	5.2%
2024	8.5%	4.9%
2025	8.5%	7.1%
Average	**7.5%**	**5.7%**

Personnel Costs- Other Post-Employment Benefits (OPEB)

The Town's share of retiree medical expenses is categorized as OPEB. The Town is required to provide medical insurance for retirees who are not yet Medicare eligible. The underlying cost for this benefit is related to assumptions for healthcare cost increases (e.g., Other Benefits); however, the demographic composition is a higher age group that typically utilize medical benefits at a higher rate than the overall employee population. The historical trend data supports this, with Town-wide benefit costs growing at 5.7% on average the past seven years, while retiree's share of healthcare costs grew at 8.2%. The following table illustrates the category's historical actual costs, as well as the average annual change.

Table 41: OPEB Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$1,181,579	N/A
2020	$1,203,101	1.8%
2021	$1,286,285	6.9%
2022	$1,391,296	8.2%
2023	$1,527,074	9.8%
2024	$1,631,602	6.8%
2025	$1,883,528	15.4%
Average		**8.2%**

2026 Budget: $2,125,000

Base Year Estimate: $2,125,000

The Town's 2026 budget aligns with growth in actual costs of approximately 8% from the most recent fiscal year.

Annual Change Assumptions: 7.7%

Similar to the underlying industry data support total benefit costs for the Town, the anticipated growth for this expenditure category uses a higher overall percentage to mirror the differences in demographics and the higher end of anticipated national healthcare cost increases anticipated by industry experts.

Non-Personnel Expenditures

The Town has multiple ongoing operating expenditures required to support service delivery that do not involve personnel. Actual expenditure trend history and underlying cost assumptions for the General Fund baseline model are detailed by category below. Unless otherwise noted, historical averages shown by department or a more granular expense type reflect the seven-year average consistent with the historical trend data provided.

Grants and Awards

The Town has historically set aside funds for grant and awards programs in the community. The amount has varied depending on the Town's financial position and community/economic factors. For example, grants increased significantly after pandemic, likely related to one-time funding from state and federal sources to support various community programs. The amount of grants awarded is an annual discretionary policy decision. As such, for the baseline forecast model, we relied on Town staff guidance of $155,000 as the ongoing base amount of grants awarded annually with no anticipated increases over the ten year period.

Materials and Supplies

Police, Parks and Public Works, and Library comprise 88% of total materials and supplies expenditures for the Town. The following table illustrates the category's historical cost, as well as the average annual change. Amount have been adjusted to remove one-time anomalies.

Table 42: Materials and Supplies Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$506,425	N/A
2020	$954,191	88.4%
2021	$986,060	3.3%
2022	$976,524	-1.0%
2023	$1,004,047	2.8%
2024	$1,336,078	33.1%
2025	$1,205,674	-9.8%
Average		**19.5%**

2026 Budget: $1,341,030

Base Year Estimate: $1,101,676

In FY2024 the Town increased the base budget to $1.3 million, which is slightly higher than recent trends for the past three years. The model assumes an initial base estimate of $1.1 million, which is the five-year historical expenditure average since 2021.

Annual Change Assumptions: 7.4% (weighted average)

The types of materials and supplies purchased vary from department to department, so the project team used expenditure history by department to estimate future trends. As stated previously, three departments drive the majority of underlying cost for this category. The remaining departments make up a smaller share of costs with actual expenses varying from year to year. For those departments, expenditures are assumed to remain flat throughout the model period (e.g., existing allocation of base budget is sufficient to cover these departments collectively).

The following table illustrates historical and assumed annual expenditure change by department. A three-year (post pandemic) average growth rate was used to inform the future costs.

Table 43: Materials and Supplies Expenditure Assumptions by Department

Department	Average Portion of Expenditures	Three Year Average Annual Change	Assumed Annual Change
Police	41.9%	12.8%	10.0%
Parks and Public Works	29.2%	10.1%	7.0%
Library	16.9%	3.0%	2.0%
All Other	12.0%	-15.4%	0.0%

Utilities

The Town pays a variety of utilities including water, electricity, and telecommunications. The following table illustrates actual utilities costs, as well as the average annual change.

Table 44: Utilities Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$451,146	N/A
2020	$540,966	19.9%
2021	$572,195	5.8%
2022	$560,096	-2.1%
2023	$636,764	13.7%
2024	$723,753	13.7%
2025	$829,296	14.6%
Average		**10.9%**

2026 Budget: $721,546

Base Year Estimate: $900,000

Actual utilities costs since the pandemic have increased by 14%, exceeding budget estimates in FY2023-25. For the model, an initial 2026 base estimate of $900,000 is used. This is based on the recent three year growth trajectory.

Annual Change Assumptions: 10.6% (weighted average)

Costs were estimated by utility type, based on past history. Utilities with a minimal impact on overall cost and volatile changes year-over-year are assumed to be flat. The following table illustrates assumed annual expenditure change by utility.

Table 45: Utility Expenditure Assumptions by Type

Utility	Average Portion of Expenditures	Average Annual Change	Assumed Percent of Cost[27]	Assumed Annual Change
Electric	6.4%	11.4%	7.0%	12.0%
Water	50.6%	11.9%	51.6%	12.0%
St Lite / Signals Energy	31.1%	9.4%	30.9%	9.0%
911 Communications Line	5.2%	14.8%	5.3%	10.0%
Telephone	3.3%	11.7%	3.3%	8.0%
Mobile/Cell Phones	2.2%	3.2%	1.0%	1.0%
Communications Data Lines	0.3%	-39.2%	0.2%	0.0%
Cable	0.8%	2.9%	0.7%	0.0%

Purchased Services

Purchased services include contracts and third-party technical/advisory support services for the Town. Amounts can vary significantly by department, however, Police, Parks and Public Works, and Community Development account for almost two-thirds of costs, with the remaining share coming from administrative functions (including non-departmental). The table below provides historical expenditure trends.

Table 46: Purchased Services Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$3,518,231	N/A
2020	$3,408,461	-3.1%
2021	$2,899,476	-14.9%
2022	$3,308,630	14.1%
2023	$2,795,440	-15.5%
2024	$3,453,697	23.5%
2025	$3,063,557	-11.3%
Average		**-1.2%**

2026 Budget: $3,752,045

Base Year Estimate: $3,206,785

Actual purchased services costs have generally come in lower than budget. The model assumes a 2026 base estimate of $3.2 million, which is consistent with the historical average for expenditures over the past seven years.

[27] Based on most recent 2025 portion of actual cost.

Annual Change Assumptions: 4.6% (weighted average)

Costs were estimated by department, based on past history. Departments with volatile past change that are relatively small relative to total cost incurred are assumed to be flat. The following table illustrates assumed annual expenditure change by Department.

Table 47: Purchased Services Expenditure Assumptions by Department

Department	Average Portion of Expenditures	Average Annual Change	Assumed Percent of Cost[28]	Assumed Annual Change
Council	0.1%	55.1%	0.2%	0.0%
Attorney	5.1%	152.5%	16.2%	10.0%
Administrative Services	8.0%	14.8%	8.1%	5.0%
Community Development	17.1%	1.6%	17.0%	2.0%
Police	20.5%	18.8%	17.5%	10.0%
Parks and Public Works	19.7%	3.3%	19.4%	2.0%
Library	2.9%	7.8%	4.2%	2.0%
Non-Departmental	26.7%	-12.5%	17.5%	0.0%

Other Operating Expenditures

The final non-personnel operating expenditure category includes all operating expenditures that do not fall into another category. Examples include plan check fees, traffic signalization costs, and tax administration fees. The following table illustrates actual costs, as well as the average annual change.

Table 48: Other Operating Costs Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$2,732,835	N/A
2020	$2,363,715	-13.5%
2021	$2,656,065	12.4%
2022	$2,826,600	6.4%
2023	$2,898,164	2.5%
2024	$3,177,868	9.7%
2025	$3,907,189	23.0%
Average		**6.7%**

[28] Based on most recent 2025 portion of actual cost.

2026 Budget: $3,367,687

Base Year Estimate: $4,170,370

Actual expenditures increased significantly in 2024 and 2025. The base year estimate assumes this pattern continues with a 6.7% increase from 2025 actual.

Annual Change Assumptions: 6.7%

Based on the average annual change.

Internal Services Charges

The Town relies on internal service funds (ISF) for Town-wide insurance including general liability and workers compensation, as well as facility, Fleet/equipment replacement, and IT services. Each of these funds incur operating costs, including ongoing maintenance, repair, and small capital asset replacement. In some cases, they may also receive external revenue sources that support operating costs. The baseline model first calculates estimated operating costs including ongoing maintenance, repair, and replacement for each ISF, then applies any outside revenue sources, before determining the net "charge" required to be allocated to departments to fully recover operational cost. As a result, the General Fund model internal service charge category reflects this aggregate net "charge" to all General Fund departments. The following sections detail assumptions for each internal service fund.

Liability Self-Insurance Fund

The underlying cost of this fund reflects general liability insurance premiums, which are influenced by the Town's claims experience and insurance industry cost trends. The following table illustrates historical operating expenditures for the fund, as well as the average annual change. The fund does not consistently receive external revenue to support operating costs.

Table 49: Liability Self-Insurance Fund Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$338,617	N/A
2020	$400,823	18.4%
2021	$646,495	61.3%
2022	$583,924	-9.7%
2023	$988,486	69.3%
2024	$1,131,184	14.4%
2025	$1,320,458	16.7%
Average		**28.4%**

2026 Charges for Service Budget: $1,825,348

Base Year Estimate: $1,622,241

Actual costs spiked beginning in 2023 through 2025. The Town recently moved to a new JPA that is expected to yield some cost savings in future years. The 2026 base estimate reflects historical cost with anticipated growth of 22% from 2025 actual.

Annual Change Assumptions: 7.0%, on average

With the recent shift to a new JPA, the annual growth in insurance costs are expected to slow from recent historical averages. Costs are still projected to increase each year at a rate greater than inflation given insurance industry trends. This assumption will need to be closely monitored as the Town receives future premium and claims data under the new JPA.

Workers' Compensation Self-Insurance Fund

The underlying cost of this fund reflects workers compensation claims activity. The following table illustrates historical operating expenditures for the fund, as well as the average annual change.

Table 50: Workers' Compensation Self-Insurance Fund Actual Revenue and Expenditure History

Year	Actual Operating Expenditures	Annual Percent Change	Actual External Revenues	Annual Percent Change
2019	$1,270,628	N/A	412,720	N/A
2020	$1,525,589	20.1%	526,552	27.6%
2021	$1,381,049	-9.5%	327,768	-37.8%
2022	$1,533,045	11.0%	258,474	-21.1%
2023	$1,913,144	24.8%	163,755	-36.6%
2024	$1,332,697	-30.3%	392,310	139.6%
2025	$1,131,566	-15.1%	330,788	-15.7%
Average		**0.2%**		**9.3%**

2026 Charges for Service Budget: $1,901,696

Base Year Estimate: $1,650,000

Recently, workers compensation costs have declined from the 2023 peak of $1.9 million. With the difficulty predicting claims activity, some contingency or fund balance within the ISF is desired as a way to smooth incremental cost increases over time. The 2026 base estimate includes the historical average cost of $1.4 million with a $250,000 contingency.

Annual Change Assumptions: 2.3%, on average

The model projects Workers' Compensation Self-Insurance Fund costs using a general inflationary factor of 2%. Year-to-year costs have varied significantly. With some contingency built into the base estimate, ongoing growth assumptions are smoothed to consider inflation given the average historical experience has been relatively flat.

Facilities Maintenance Internal Service Fund

The facilities maintenance funds provides funding for the upkeep and maintenance of Town facilities. The following table illustrates actual operating expenditures, as well as the average annual change and external revenue sources (outside of charges to General Fund departments) that support facilities maintenance operating needs.

Table 51: Facilities Maintenance Fund Budgeted and Actual Contribution History

Year	Actual Operating Expenditures	Annual Percent Change	Actual External Revenues	Annual Percent Change
2019	$968,550	N/A	$904,548	N/A
2020	$1,002,775	3.5%	$233,302	-74.2%
2021	$1,063,763	6.1%	$333,649	43.0%
2022	$1,217,971	14.5%	$1,115,005	234.2%
2023	$1,298,219	6.6%	$394,952	-64.6%
2024	$1,330,691	2.5%	$490,512	24.2%
2025	$1,418,481	6.6%	$245,818	-49.9%
Average		**6.6%**		**18.8%**

2026 Charges for Service Budget: $1,175,983 (net of external revenue)

Base Year Estimate: $1,175,983

The Town has consistently charged the General Fund departments 100% of underlying operating expenditures. The 2026 base maintains the original adopted budget of $1.2 million, which is reflective of actual operating expenditures less external revenue sources.

Annual Change Assumptions: 7.2%, on average

The model projects Facilities Maintenance Fund costs by category, based on past history and consistent with underlying assumptions for General Fund costs for the same non-personnel expenditure categories. The expected charge is offset by approximately $340,000 in revenue, which does not include a growth factor over the ten years. The following table summarizes expenditure assumptions by category.

Table 52: Facilities Maintenance Fund Model Assumptions

Expenditure Category	FY2025 Actual Expenditures	Annual Change Assumed for Model
Materials and Supplies	$404,096	3.5%
Utilities	$817,793	8.0%
Purchased Services	$158,481	2.0%
Other Operating Expenditures	$58,836	6.1%

Information Technology (IT) Internal Service Fund

The IT ISF supports Town-wide application support and maintenance contracts, along with equipment (hardware) replacement cycles. The following table illustrates actual operating expenditures, as well as the average annual change.

Table 53: IT Internal Service Fund Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$566,952	N/A
2020	$796,071	40.4%
2021	$668,473	-16.0%
2022	$877,789	31.3%
2023	$538,282	-38.7%
2024	$731,789	35.9%
2025	$887,063	21.2%
Average		**12.4%**

2026 Charges for Service Budget: $954,554

Base Year Estimate: $1,067,101

Base year estimates for the IT ISF charges for services do not include any assumption for external revenue sources. In addition, the 2026 base estimate is reflective of the anticipated maintenance and replacement schedule provided by Town staff, not historical spending. This schedule reflects the true cost to maintain the IT infrastructure the Town has in place to support current service levels.

Annual Change Assumptions: 3.0%, on average

The Town provided an inventory of existing technology assets and planned replacement schedules, and the project team used this data to project annual technology replacement needs over the 10-year model period. The model projects that actual technology costs will be between approximately $1.1 and $1.5 million per year over the next 10 years. These figures are smoothed out over the model period to allow for a more predictable annual contribution. Contribution amounts are assumed to increase by 3% each year based on inflation and higher replacement costs over time.

The following table illustrates estimated actual technology needs by year. It is based on existing technology and does not assume any expansion of technology use.

Table 54: Estimated Technology Replacement Needs per Year, FY2026-2036

Year	Town Estimate of Maintenance and Replacement Needs	Smoothed Estimate for Forecast[29]
2026	$1,251,845	$1,042,067
2027	$1,420,894	$1,101,297
2028	$1,105,082	$1,134,336
2029	$1,157,701	$1,168,366
2030	$1,206,837	$1,203,417
2031	$1,138,311	$1,239,520
2032	$1,508,759	$1,276,705
2033	$1,214,200	$1,315,007
2034	$1,190,731	$1,354,457
2035	$1,196,769	$1,395,091
2036	$1,276,077	$1,436,943
Average	**$1,242,473**	**N/A**

Equipment Replacement Internal Service Fund

The Equipment Replacement ISF supports maintenance and replacement of vehicles and other large equipment used by various Town departments. The following table illustrates historical operating expenditures, as well as the average annual change. Since the fund supports vehicle and equipment replacement (capital costs), there is greater variation in funds expended annually. This may be due to market conditions delaying the purchasing and receipt of new vehicles, which was common immediately after the pandemic. The fund also relies more heavily on fund balance to support catch-up or timing of replacement.

[29] Includes 3% annual inflationary increase

Table 55: Equipment Replacement Fund Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change	Actual Revenues	Annual Percent Change
2019	$601,961	N/A	$22,492	N/A
2020	$540,036	-10.3%	$36,987	64.4%
2021	$248,302	-54.0%	$59,852	61.8%
2022	$157,761	-36.5%	$48,484	-19.0%
2023	$526,960	234.0%	$78,916	62.8%
2024	$187,323	-64.5%	$33,418	-57.7%
2025	$563,192	200.7%	$43,409	29.9%
Average		**44.9%**		**23.7%**

2026 Charges for Service Budget: $1,167,544

Base Year Estimate: $1,026,554

Base year estimates for the Equipment Replacement ISF charges for services includes a small assumption of $40,000 in external revenue to offset General Fund charges for services. This external revenue is typically generated by sale proceeds from auction on obsolete vehicles that have exceeded their useful life. In addition, the 2026 base estimate is reflective of the anticipated maintenance and replacement schedule provided by Town staff, not historical spending. This schedule reflects the ongoing cost required to replace the Town's current vehicle and equipment asset inventory.

Annual Change Assumptions: 3.0%, on average

The Town provided an inventory of equipment and planned replacement schedules, and the project team used this to project annual vehicle and equipment replacement needs over the 10-year model period. The Town replacement schedule projects that actual equipment costs will be between approximately $215,000 and $2.4 million per year over the next 10 years. These figures are smoothed out over the model period to allow for a more predictable annual contribution. Contribution amounts are assumed to increase by 3% each year.

The following table illustrates estimated actual equipment needs by year. It is based on existing equipment and does not assume any expansion for increased service levels.

Table 56: Estimated Equipment Replacement Needs per Year, FY2026-2036

Year	Town Estimate of Maintenance and Replacement Needs	Smoothed Estimate for Forecast[30]
2026	$584,890	$1,000,000
2027	$2,387,730	$1,089,741
2028	$2,014,115	$1,122,433
2029	$214,275	$1,156,106
2030	$1,029,654	$1,190,789
2031	$837,932	$1,226,513
2032	$532,015	$1,263,308
2033	$1,079,139	$1,301,207
2034	$1,414,414	$1,340,244
2035	$2,162,045	$1,380,451
2036	$1,403,991	$1,421,864
Average	**$1,241,836**	**N/A**

Debt Service

The following table illustrates historical debt service, as well as the average annual change and the average annual variance between budgeted and actual.

Table 57: Debt Service Budgeted and Actual Expenditure History

Year	Actual Expenditures	Annual Percent Change
2019	$1,909,073	N/A
2020	$1,905,024	-0.2%
2021	$1,960,505	2.9%
2022	$2,055,884	4.9%
2023	$2,049,747	-0.3%
2024	$2,119,919	3.4%
2025	$2,108,681	-0.5%
Average		**1.7%**

[30] Includes 3% annual inflationary increase

2026 Budget: $2,057,884

Base Year Estimate: $2,057,884

It is assumed that actual debt service expenditures will match the Town's adopted debt service schedule, as provided by Town staff.

Annual Change Assumptions: Varies

Debt service payments are based on debt service schedules provided by the Town. No additional debt is assumed during the model period.

Transfers Out

Pension Trust Transfers

The Town transfers General Fund balance to a pension trust each year as a policy directive to accumulate reserves and investment earnings that can be used to offset the anticipated growth in unfunded pension liability over time. Similar to Town grants, the amount funded to the Pension Trust is an annual discretionary policy decision. For the baseline forecast, the model assumes $390,000 is transferred annually from the General Fund.

Capital Transfers Out

For purposes of a baseline model forecast, transfers from the General Fund to support capital investment should only consider tier one funding, which is the required maintenance, repair, and replacement cost for existing assets used to provide services. If the Town has historically underfunded asset maintenance needs, this would not be reflected in the underlying baseline assumption. Rather, a scenario-based analysis could be used that incorporates higher funding levels to address deferred maintenance needs in a way that positions the Town to achieve desired replacement cycles for future years. The same scenario-based assumption is true for new capital projects tied to potential development or projects desired by Town Council.

The table below shows the history of capital expenditure, non-transfer revenue, and General Fund revenue (transfers in).

Table 58: Capital Improvement Projects Sources and Uses History

Year	Actual Capital Expenditures	Non-Transfer Revenue Sources	General Fund Transfer
2019	$9,521,126	$6,162,615	$2,335,220
2020	$8,477,293	$13,382,084	$6,982,591
2021	$6,398,953	$5,622,634	$3,401,479
2022	$18,257,900	$18,196,039	$1,750,001
2023	$10,617,693	$18,098,143	$3,006,978
2024	$13,375,941	$11,406,579	$1,615,000
2025	$16,525,663	$14,029,724	$1,110,000
Average	**$11,882,081**	**$12,413,974**	**$2,885,896**

The General Fund baseline model only considers pay-go cash sourced from the General Fund operating budget needed to support tier one capital needs after considering any external sources of designated revenue used for capital purposes. The model does not assume any new debt is issued to support ongoing tier one capital needs.

Base Year Estimate: $1,000,000

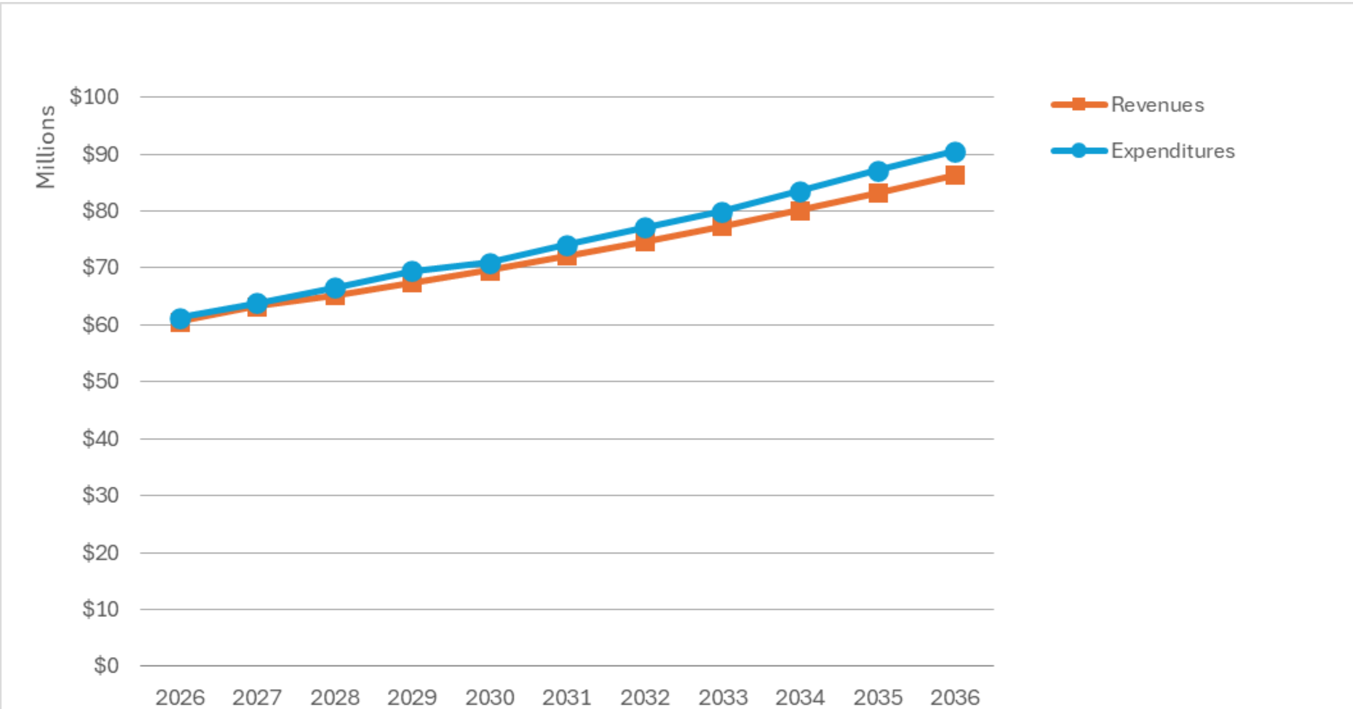
Ultimately, General Fund cash to support capital investment is a policy decision. Given the history of total capital expenditures and other capital revenue sources, the model assumes a conservative $1 million is transferred annually only to support tier one project needs. Additional capital investment is required but will be modeled as scenarios within the ALM study components of the project.

There are potential options to mitigate the impact of these capital needs on the General Fund. The Town's capital funds have an estimated FY2026 beginning fund balance of $17.3 million, per the Town's FY2026 budget book, and the strategic use of fund balance could minimize the need for General Fund transfers. The Town also has the option of incurring additional debt to finance capital project. No new debt is assumed in projections, but the Excel model allows users to project the impact of additional bond financing.

Financial Outlook

The following figure summarizes the projected revenues and expenditures under the baseline scenario.[31]

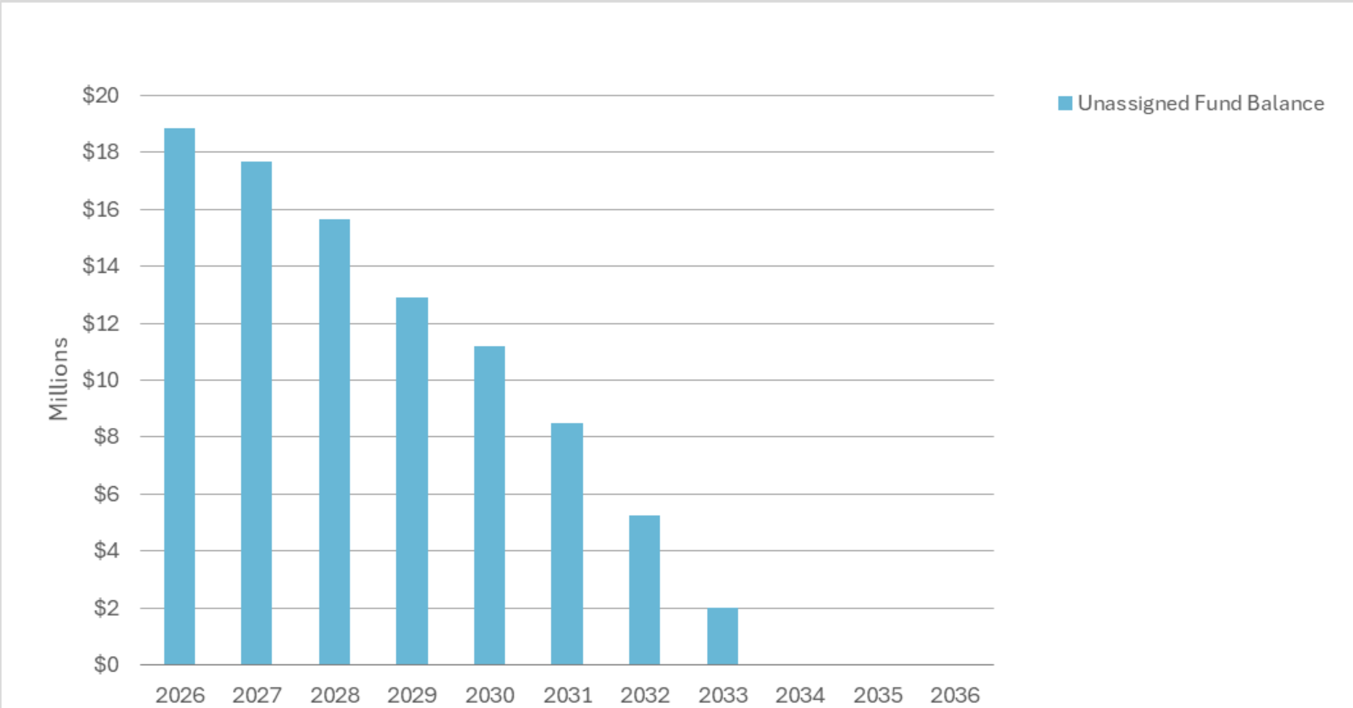
Figure 10: Los Gatos Base Scenario General Fund Revenue and Expenditure Projections



The model shows a gap between estimated revenues and expenditures that is projected to increase over time based on underlying assumptions for each of the model forecast categories detailed in this memo. Under these forecast assumptions the Town would deplete its unassigned General Fund balance by approximately 2034, as illustrated in the following figure.

[31] Any fund balance remaining beyond the minimum fund balance established by Town policy- the policy requires a minimum General Fund balance of 25% of annual expenditures

Figure 11: Los Gatos Base Scenario General Fund Unassigned Fund Balance Projections



It is again important to reiterate that these projections are based on a number of assumptions, and actual costs will vary significantly based on policy and operational decisions as well as external factors like the economy. The Excel model provided to staff as part of this project allows users to evaluate the potential impact of different scenarios.

The tables below show the estimated revenues, expenditures, and impact on fund balance in greater detail.

Table 59: Detailed General Fund Revenue Projections, FY2026-2036, in Millions

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Property Tax	$21.5	$23.1	$24.4	$25.7	$27.2	$28.7	$30.4	$32.1	$33.9	$35.8	$37.8
VLF Backfill	$5.6	$5.9	$6.2	$6.5	$6.9	$7.2	$7.6	$8.0	$8.5	$8.9	$9.4
Sales and Use Tax (non-Measure G)	$7.8	$7.9	$8.1	$8.3	$8.4	$8.6	$8.8	$9.0	$9.1	$9.3	$9.5
Sales and Use Tax (Measure G)	$1.3	$1.4	$1.4	$1.4	$1.4	$1.5	$1.5	$1.5	$1.6	$1.6	$1.6
Licenses & Permits	$6.3	$6.3	$6.4	$6.4	$6.4	$6.5	$6.5	$6.5	$6.5	$6.6	$6.6
Town Services	$5.7	$5.9	$6.1	$6.3	$6.5	$6.7	$6.9	$7.1	$7.3	$7.5	$7.7
Business License Tax	$2.5	$2.5	$2.5	$2.6	$2.6	$2.7	$2.7	$2.7	$2.8	$2.8	$2.9
Transient Occupancy Tax	$2.4	$2.5	$2.6	$2.6	$2.7	$2.8	$2.9	$3.0	$3.1	$3.2	$3.3
Intergovernmental	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3	$1.3
Franchise Fees	$1.0	$1.1	$1.1	$1.1	$1.1	$1.1	$1.2	$1.2	$1.2	$1.2	$1.2
Fines & Forfeitures	$0.4	$0.4	$0.4	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5	$0.5
Transfers In	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3	$0.3
Interest	$1.6	$1.6	$1.2	$1.2	$1.0	$1.0	$0.8	$0.8	$0.7	$0.7	$0.7
Other Sources	$2.8	$2.8	$2.8	$2.8	$2.8	$2.8	$2.8	$2.8	$2.8	$2.8	$2.8
Total Revenues	**$60.5**	**$63.0**	**$64.8**	**$67.0**	**$69.2**	**$71.6**	**$74.1**	**$76.8**	**$79.5**	**$82.5**	**$85.7**
Percent Change	**N/A**	**4.0%**	**2.9%**	**3.5%**	**3.2%**	**3.6%**	**3.4%**	**3.7%**	**3.6%**	**3.8%**	**3.8%**

Table 60: Detailed General Fund Expenditure Projections, FY2026-2036, in Millions

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Operating Expenditures											
Salary	$22.8	$23.6	$24.5	$25.5	$26.5	$27.6	$28.6	$29.8	$31.0	$32.2	$33.5
Overtime	$1.4	$1.4	$1.4	$1.4	$1.4	$1.4	$1.5	$1.5	$1.5	$1.5	$1.5
CalPERS	$9.1	$9.7	$10.1	$11.1	$11.7	$12.3	$12.8	$13.5	$13.9	$14.5	$14.7
OPEB	$2.1	$2.3	$2.5	$2.7	$2.9	$3.1	$3.3	$3.6	$3.9	$4.2	$4.5
Other Benefits	$5.5	$5.9	$6.3	$6.7	$7.2	$7.6	$8.1	$8.7	$9.2	$9.9	$10.5
Materials and Supplies	$1.1	$1.2	$1.3	$1.4	$1.5	$1.6	$1.7	$1.8	$1.9	$2.1	$2.2
Internal Service Charges	$6.5	$7.0	$7.2	$7.5	$7.7	$7.9	$8.2	$8.4	$8.7	$8.9	$9.2
Grants and Awards	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2	$0.2
Utilities	$0.9	$1.0	$1.1	$1.2	$1.3	$1.5	$1.6	$1.8	$2.0	$2.2	$2.5
Debt Service	$2.1	$2.1	$2.1	$2.1	$0.8	$0.8	$0.7	$0.0	$0.0	$0.0	$0.0
Purchased Services	$3.2	$3.4	$3.5	$3.7	$3.8	$4.0	$4.2	$4.4	$4.6	$4.8	$5.0
Other Operating Expenditures	$4.2	$4.5	$4.8	$5.1	$5.4	$5.8	$6.2	$6.6	$7.0	$7.5	$8.0
Total Operating Expenditures	**$59.1**	**$62.0**	**$64.9**	**$68.4**	**$70.3**	**$73.8**	**$77.1**	**$80.3**	**$83.9**	**$87.9**	**$91.8**
Transfers Out											
New Capital	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0	$1.0
Other	$0.4	$0.4	$0.4	$0.4	$0.4	$0.4	$0.4	$0.4	$0.4	$0.4	$0.4
Total Transfers Out	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**	**$1.4**
Total Expenditures	**$60.5**	**$63.4**	**$66.3**	**$69.8**	**$71.7**	**$75.2**	**$78.5**	**$81.7**	**$85.3**	**$89.3**	**$93.1**
Percent Change	**N/A**	**4.9%**	**4.5%**	**5.3%**	**2.7%**	**4.8%**	**4.4%**	**4.0%**	**4.4%**	**4.7%**	**4.3%**

Table 61: Total General Fund Balance Projections, FY2026-2036, in Millions

Category	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036
Total Revenues	$60.5	$63.0	$64.8	$67.0	$69.2	$71.6	$74.1	$76.8	$79.5	$82.5	$85.7
Total Expenditures	$60.5	$63.4	$66.3	$69.8	$71.7	$75.2	$78.5	$81.7	$85.3	$89.3	$93.1
Net Fund Balance Change	**$0.1**	**($0.5)**	**($1.5)**	**($2.8)**	**($2.6)**	**($3.5)**	**($4.4)**	**($4.9)**	**($5.8)**	**($6.8)**	**($7.5)**
Total Fund Balance	$34.9	$34.4	$32.9	$30.1	$27.6	$24.0	$19.6	$14.8	$9.0	$2.2	($5.2)
Total Unassigned Fund Balance	**$18.9**	**$17.7**	**$15.7**	**$12.9**	**$11.2**	**$8.5**	**$5.2**	**$2.0**	**$0.0**	**$0.0**	**$0.0**

Sensitivity Analysis

The baseline financial forecast relies on a number of assumptions, as detailed in the previous sections. Actual revenues and expenditures in future years will vary based on policy decisions made by the Town Council and external trends like the strength of the economy and the pace of growth and development,

The model provided to the Town allows users to project the impact of potential internal and external changes on the Town's estimated fund balance. These projections can be compared against the base scenario to understand the possible impact of these changes. The Town can use these comparisons to evaluate the potential impact of policy decisions as well as to better understand the potential risks and opportunities created by changing population levels and economic conditions.

The following sections briefly compare the base scenario to potential alternative scenarios to illustrate how different assumptions can impact model forecasts.

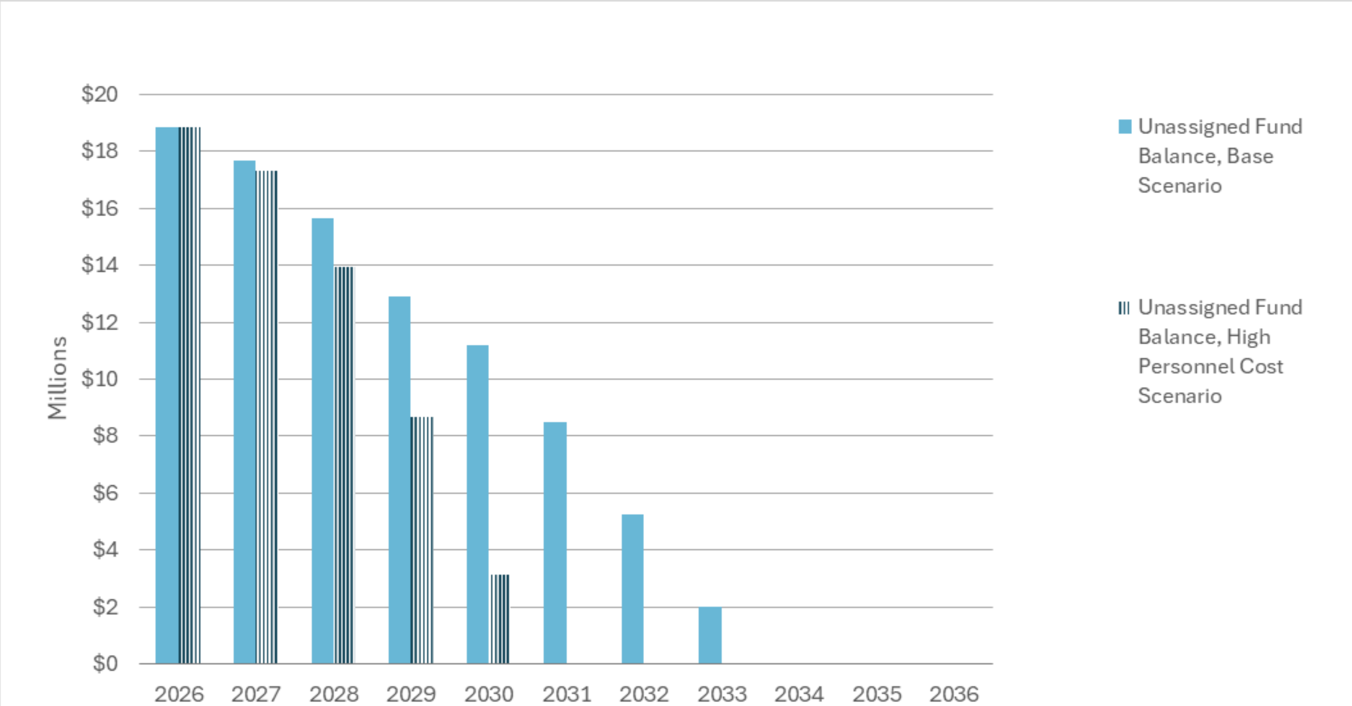
Potential Scenario: Staffing Costs Increase More Rapidly

Staffing costs accounted for approximately 63% of General Fund operating costs between FY2019 and FY2025. Personnel are the largest operating cost driver, so salary and benefits trends will have a significant impact on the Town's future financial condition. To understand the potential risk created by higher staffing costs, the team projected a high staffing cost scenario with the following assumptions:

- A 6% annual increase in salary costs, compared to approximately 4% in the base scenario
- A 5% annual increase in overtime costs, compared to approximately 1% in the base scenario
- An 8% annual increase in OPEB costs, compared to approximately 5% in the base scenario
- A 10% increase in healthcare costs, compared to approximately 7% in the base scenario

Based on these assumptions, with higher staffing costs the Town would deplete its unassigned General Fund balance by 2031, three years earlier than the base scenario. The forecasted impact of these higher costs is illustrated in the figure below.

Figure 12: Los Gatos Base Scenario General Fund Higher Salary Cost Sensitivity Analysis



Potential Scenario: The Town Develops More Rapidly

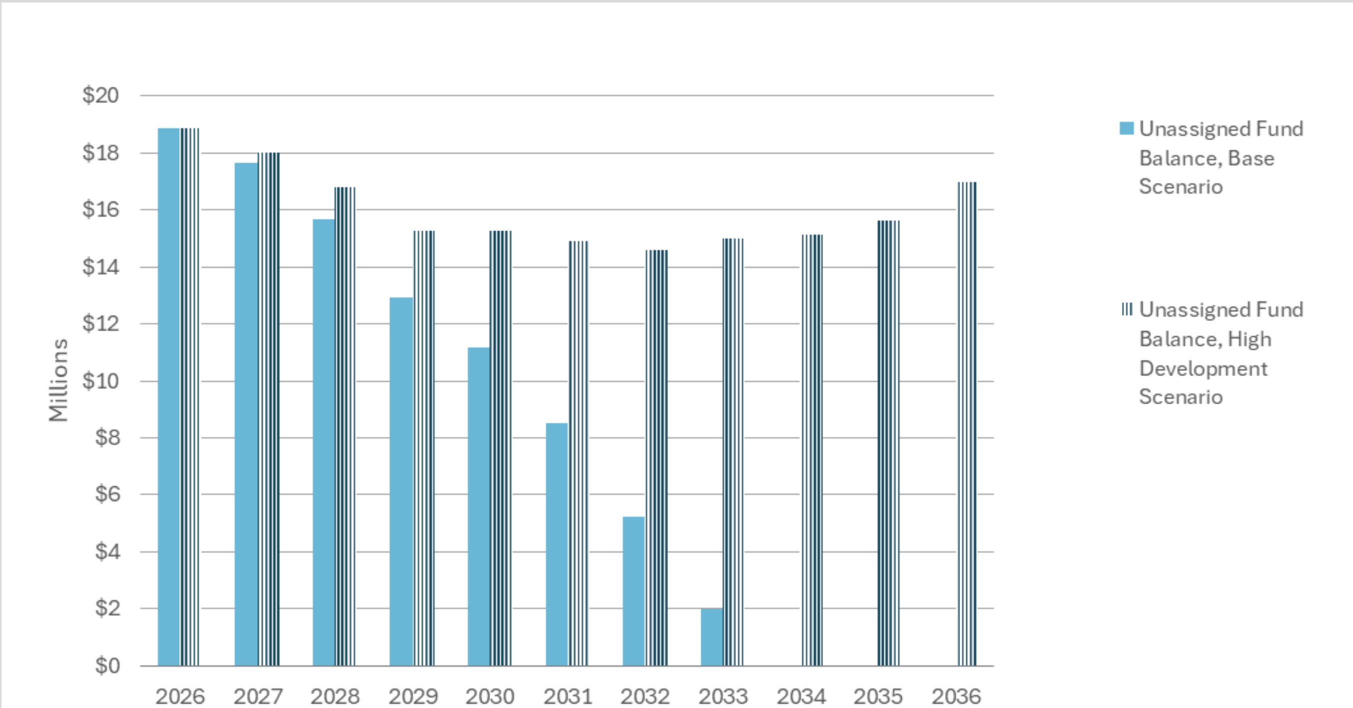
The base scenario is relatively conservative in its projections of the Town's future development, as discussed in previous sections. However, the Town could develop more rapidly than the baseline model projects, which would have a significant impact on the Town's revenue.

To understand the potential for increased revenue generation with more development, the team projected a scenario with the following assumptions:

- A 10% annual increase in new construction valuation, compared to keeping growth flat in the base scenario
- A 15% annual increase in change of ownership valuation, compared to approximately 4% in the base scenario
- A 6% annual increase in other valuation, compared to approximately 5% in the base scenario
- A 5% increase in Town development fee revenue, compared to approximately 2% in the base scenario
- A proportionate increase in annual VLF revenue

Based on these assumptions, with more property tax and VLF revenue the Town would be able to maintain a significant unassigned fund balance over the course of the model period. The forecasted impact of this increased revenue is illustrated in the figure below.

Figure 13: Los Gatos Base Scenario General Fund High Development Sensitivity Analysis



These variations illustrate the impact of both external trends and internal decision making on the Town's financial outlook. Although favorable economic trends have the potentially to significantly improve the Town's outlook, it is still important for the Town to proactively prepare for the risk of financial downturn and of increased operating costs.

Conclusion

The Town of Los Gatos is to be commended for its commitment to long-term thinking and proactive planning for its financial future. The forecasts detailed in this report are the result of extensive analysis using the best available data in order to develop the most reasonable and defensible projections for the Town's financial forecast under current conditions. However, as the Sensitivity Analysis section of this report illustrates, the Town's policy decisions and external trends can have a significant impact on the Town's financial future.

The model provided to the Town as part of this project is a tool that allows users to project the Town's finances under a variety of circumstances. The next step for the Town should be to continue to compare the base scenario projection to various additional scenarios to gain more insight into risk areas as well as opportunities to increase revenue or operate more efficiently. The model is also designed to be updated annually as new financial information becomes available, allowing it to be used in future years.

APPENDIX A:

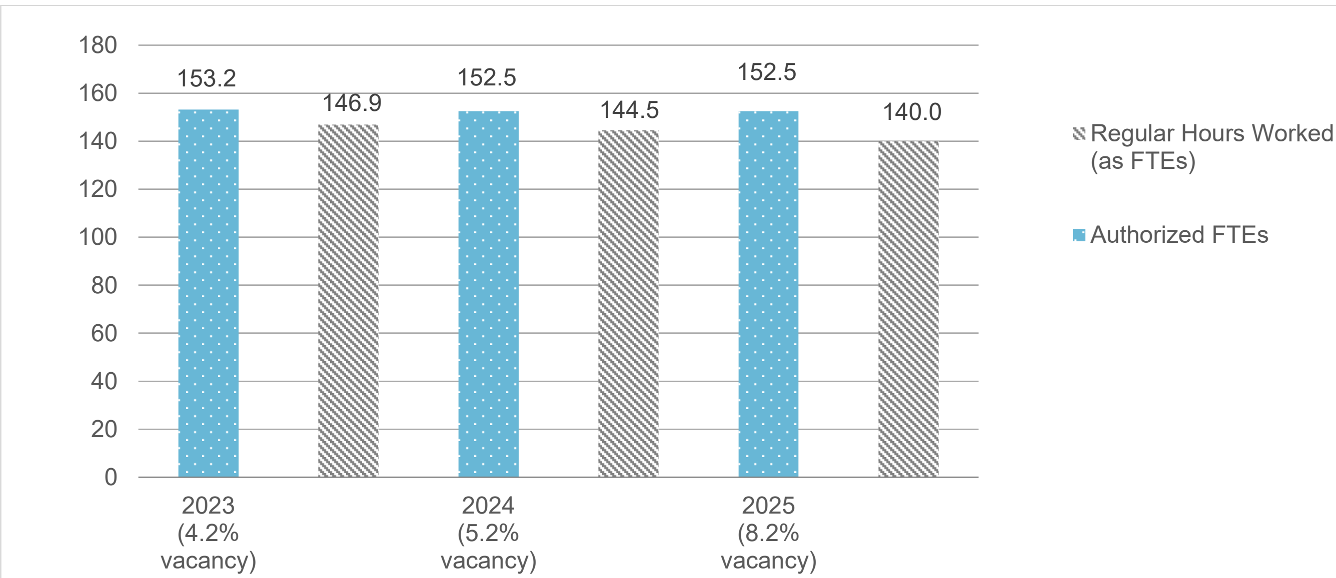
Staff Hours Analysis

Staff Hours Analysis by Employee Type and Department

Full-Time Benefitted Employees

In 2025, Los Gatos full-time benefitted staff[32] worked a total of 291,178 regular hours[33], the equivalent of approximately 140.0 FTEs. In comparison, the Town had 152.5 full-time benefitted authorized FTEs in 2025, which means the Town's full-time benefitted vacancy rate in 2026 was approximately 12.5 FTEs, or 8.2% of authorized positions. The following figure compares authorized full-time benefitted positions for 2023 through 2025.

Figure 14: Authorized Full-Time Equivalent Staffing versus Regular Hours Worked (Full-Time Benefitted Staff)



The Town averaged 9.0 vacant full-time benefitted FTEs per year between 2023 and 2025. However, much of that staff capacity gap was mitigated by staff working overtime or earning comp time. In 2025, full-time benefitted staff worked a total of 14,008 hours of additional time above the standard 2,080 hours, the equivalent of approximately 7.7 FTEs. This means that the effective vacancy rate, when additional work hours are included, was 3.2%. The figure below compares authorized full-time benefitted staffing to total hours worked (expressed as FTEs).

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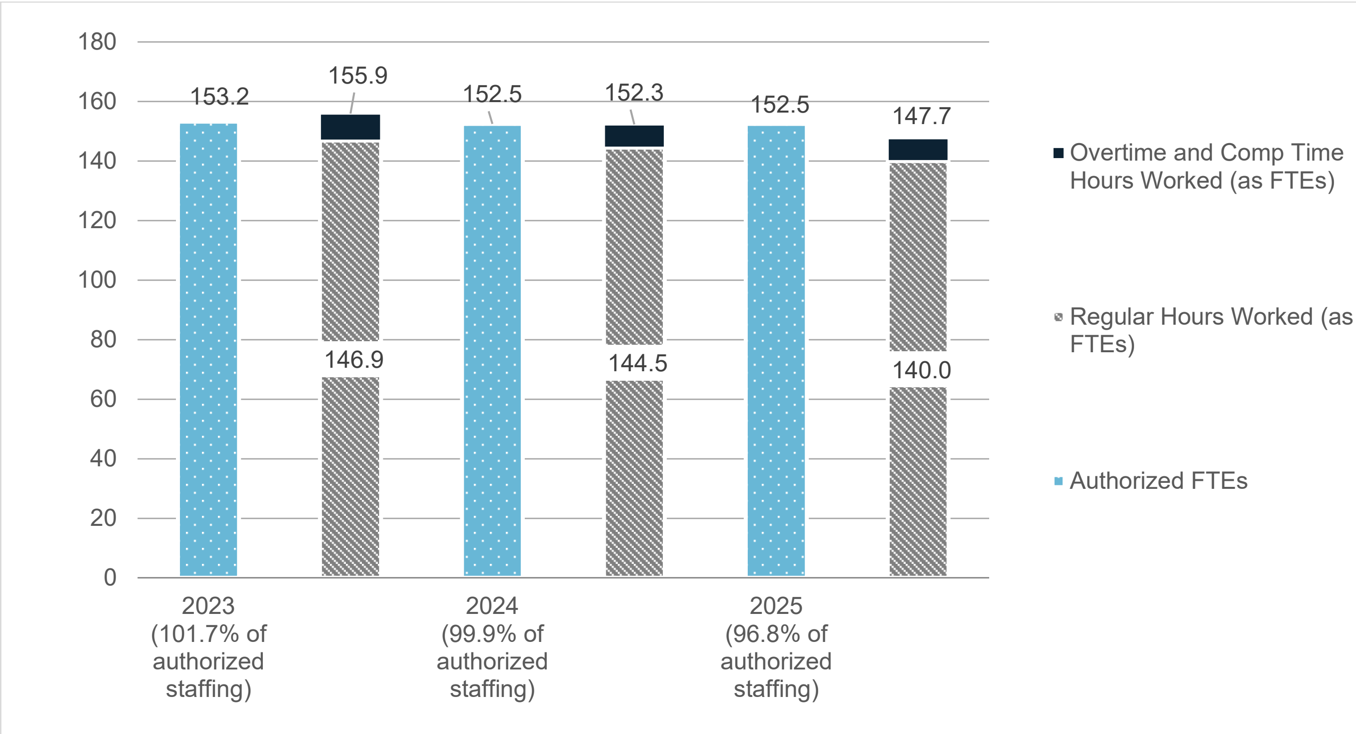
[32] Employees who are eligible for Town benefits.

[33] Includes hours worked and leave, except for overtime and compensatory time earned.

Figure 15: Authorized Full-Time Equivalent Staffing versus Total Hours Worked (Full-Time Benefitted Staff)



Staffing Levels by Department

The following table compares the average authorized and actual staffing levels by department for 2023 through 2025. It includes both full-time benefitted and hourly staff. The departments with the highest vacancy rates are Town Offices, which have an average vacancy rate of 21.5%, and Community Development, which has an average vacancy rate of 9.4%. The only department with staffing hours above authorized staffing was Police, as they rely heavily on overtime and comp time hours.

Table 62: Average Authorized and Actual Staffing by Department, 2023-2025

Department	Authorized Staffing	Total Regular Hours Worked (as FTEs)	Total OT and Comp Hours Worked (as FTEs)	Total Hours Worked (as FTEs)	Vacancy Rate (Regular Hours)	Vacancy Rate (When OT and Comp Hours Considered)
Administrative Services	21.8	21.3	0.2	21.5	2.6%	1.5%
Community Development	21.1	19.0	0.1	19.1	9.7%	9.4%
Library	16.0	15.2	0.2	15.3	5.4%	4.4%
Parks and Public Works	39.7	35.7	0.7	36.4	10.0%	8.2%
Police	63.2	62.1	7.0	69.1	1.6%	-9.5%
Town Offices	2.5	1.9	0.0	1.9	21.5%	21.5%