



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 5/19/2026

ITEM NO: 16

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DATE: May 13, 2026  
TO: Mayor and Town Council  
FROM: Chris Constantin, Town Manager  
SUBJECT: **Conduct a Public Hearing on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year 2026-27 and on the Proposed Capital Improvement Program for FY 2026-27 – FY 2030-31**

RECOMMENDATION: Conduct a Public Hearing on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year 2026-27 and on the Proposed Capital Improvement Program for FY 2026-27 – FY 2030-31; Provide direction and recommendations on any changes for the final budget; Provide direction on Finance Commission recommendations; and Approve the FY 2026-27 List of Potential Donations Consistent with the Town’s Donation Policy.

FISCAL IMPACT:

Town staff recommends establishing an Operating Budget of \$75,660,382 and a Capital Improvement Program Budget of \$6,454,919 for FY 2026-27. For a total operating and capital budget of \$82,115,301. Estimated revenues for the operating and capital budgets are \$78,246,172 and \$3,460,439, respectively, for a total of \$81,706,611. This results in an estimated use of fund balance of \$408,690 across both budgets.

STRATEGIC PRIORITY:

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

PREPARED BY: Kristina Alfaro  
Administrative Services Director

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Reviewed by: Town Manager, Assistant Town Manager, and Town Attorney

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SUBJECT: Conduct a Public Hearing on the Town of Los Gatos Proposed Operating and Capital Budget for Fiscal Year 2026-27 and on the Proposed Capital Improvement Program for FY 2026-27 – FY 2030-31

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EXECUTIVE SUMMARY:

The Proposed Fiscal Year (FY) 2026-27 Operating and Capital Budgets reflect the Town's continued commitment to prudent financial management, long-term fiscal sustainability, and maintaining core service levels while addressing ongoing economic and operational challenges. The proposed budget includes total operating and capital expenditures of \$82.1 million and projected revenues of \$81.7 million, resulting in an estimated use of fund balance of approximately \$408,690.

The FY 2026-27 General Fund budget totals approximately \$65.0 million in expenditures and \$64.8 million in revenues. Compared to the prior year estimate, General Fund expenditures are increasing primarily due to rising personnel-related costs, including CalPERS contributions, healthcare costs, and internal service charges associated with technology and vehicle replacement programs. At the same time, several revenue categories, including property tax, sales tax, licenses and permits, continue to perform stronger than originally forecasted and have improved the Town's long-range financial outlook.

The Proposed Budget incorporates several significant structural improvements intended to enhance long-term fiscal sustainability and improve budget transparency. These include the implementation of a new operating expenditure base budget methodology utilizing historical expenditure trends, integration of five-year forecasts directly into financial summaries, expanded revenue and expenditure forecasting detail, and enhanced financial trend analysis. Collectively, these efforts resulted in approximately \$1.3 million in ongoing expenditure reductions compared to prior budget methodologies.

While the Town's financial forecast has improved considerably since the FY 2025-26 Mid-Year Budget Update, the Town continues to face several long-term challenges. These include rising pension and retiree medical obligations, uncertainty surrounding economically sensitive revenues, risks associated with potential economic slowdown or recessionary conditions, and more than \$300 million in unfunded infrastructure needs. Additionally, the FY 2026-27 Proposed Budget does not include the customary transfer to the General Fund Appropriated Reserve (GFAR), limiting the Town's ability to build reserves for future liabilities and capital obligations.

The Finance Commission reviewed the Proposed Budget over multiple public meetings and provided recommendations for Council consideration. Staff is recommending several modifications to the Proposed Budget consistent with portions of the Commission's recommendations, including adjustments to Vehicle and Equipment Fund charges, increased funding for priority facility projects, and additional appropriations for contractual obligations within the Parks and Public Works Department. These recommended changes would improve the General Fund position and result in a projected minor surplus of approximately \$6,503 for FY 2026-27.

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The Proposed FY 2026-27 Budget reflects a balanced and measured approach that prioritizes fiscal responsibility, operational stability, transparency, and long-term planning while maintaining the Town's commitment to delivering essential services to the community.

BACKGROUND:

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

Proposed Operating Budget:

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

CIP Budget:

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

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

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

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

The May 11, 2026, Finance Commission reviewed staff compiled recommendations received from various Commission members and discussed and finalized those recommendations, included as Attachment 1 for Council's consideration along with staff recommendations.

DISCUSSION:

The FY 2026-27 Proposed Budget reflects a decrease in revenues and an increase in expenditures compared to the previous year's estimated budget. Total expenditures for all funds are proposed at \$82.1 million, a \$2.2 million or 2.8% increase from the previous year's

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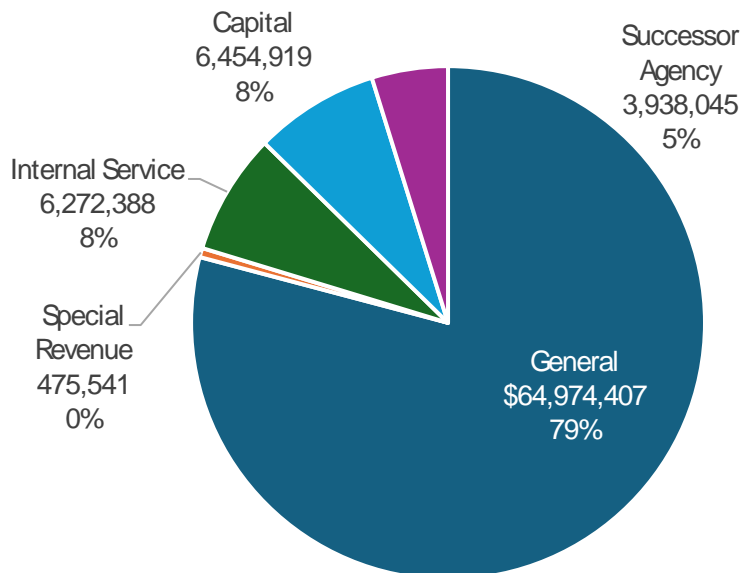
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estimated budget. Total revenues for all funds are anticipated to be \$81.7 million, a \$4.4 million or 5% decrease from last year's estimated budget. Changes are discussed later in this report under the expenditure and revenue sections.

General Fund expenditures are recommended at \$65.0 million, which is an increase of \$3.3 million or 5.3%, from the previous year's estimated budget. General Fund revenues are estimated at \$64.8 million, which is a \$1.7 million or 2.5% decrease from the previous year's estimated budget.

The following graph shows the Town's budget by fund type.

Chart 1 FY 2026-27 Proposed Budget by Fund Type



### General Fund

The General Fund is the Town's primary operating fund. It accounts for basic services such as public safety, public works, community development, park maintenance, code enforcement, and the administrative services required to support them. The fund generates revenue from the Town's discretionary funding sources (e.g., sales tax, property tax, and transient occupancy tax). As a rule, General Fund resources are used only to fund operations that do not have other dedicated (restricted) funding sources. Operations that rely heavily upon non-General Fund resources.

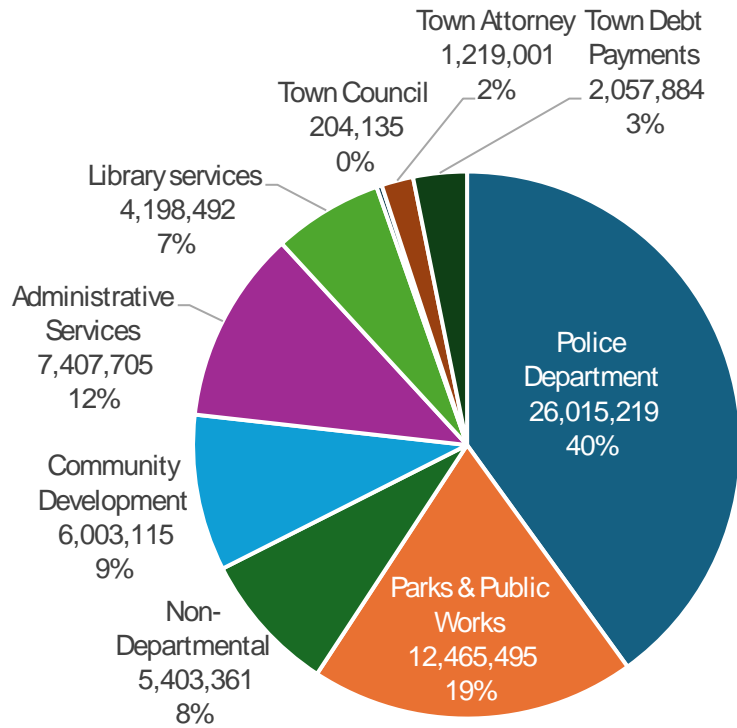
### General Fund Expenditures

As illustrated in the following chart, most of the General Fund supports costs for Law Enforcement, Parks and Public Works, and Administrative Services.

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Chart 2 General Fund FY 2026-27 Proposed Budget – Expenditures  
\$64,974,407



FY 2026-27 expenditures are estimated at \$65.0 million, which represents a \$3.3 million or 5.3% increase compared to the FY 2025-26 Estimate Budget from the previous year. This increase is discussed further below.

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Category	FY 2025-26 Estimate	FY 2026-27 Proposed	\$ Variance	% Variance
Salary and Benefits	\$23,405,209	\$24,176,333	\$771,124	3.3%
Overtime	1,384,604	1,457,000	\$72,396	5.2%
CalPERS Benefits	8,790,965	10,410,788	\$1,619,823	18.4%
All Other Benefits	5,349,271	6,294,481	\$945,210	17.7%
OPEB Pay as you go	2,173,606	2,193,606	\$20,000	0.9%
<b>Total Salaries and Benefits</b>	<b>\$41,103,655</b>	<b>\$44,532,208</b>	<b>\$3,428,553</b>	<b>8.3%</b>
Operating Expenditures	11,569,730	10,273,206	(\$1,296,524)	-11.2%
Grants & Awards	339,820	321,950	(\$17,870)	-5.3%
Utilities	723,546	817,018	\$93,472	12.9%
Internal Service Charges	4,741,938	6,567,141	\$1,825,203	38.5%
Debt Service	2,057,884	2,057,884	\$0	0.0%
Pension Pre-Funding	690,000	390,000	(\$300,000)	-43.5%
Fixed Assets/Equip	191,868	15,000	(\$176,868)	-92.2%
Transfers Out	300,000	0	(\$300,000)	-100.0%
<b>TOTAL EXPENDITURES</b>	<b>\$61,718,441</b>	<b>\$64,974,407</b>	<b>\$3,255,966</b>	<b>5.3%</b>

The estimates for FY 2026-27 General Fund expenditures are based on a thorough analysis of anticipated personnel and non-personnel costs. To create a more fiscally responsible budget, department budgets for operating expenditures reflect a base budget that is reflective of ongoing expenses.

#### *Personnel Costs*

In FY 2026-27, personnel costs are expected to reach \$44.5 million, accounting for 68.5% of the General Fund expenditures. These costs include salaries, overtime, and compensation for benefited and part-time staff (60%), retirement benefits (25%), and other fringe benefits (15%), such as health coverage.

To obtain these figures, the Town uses the salary projection module of its new Enterprise Resource Planning (ERP) software and made necessary updates to account for vacant positions, new hires, salary adjustments, and reallocated positions. Furthermore, the projected costs of benefits for the upcoming year, such as retirement and health plans, were taken into consideration.

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The FY 2026-27 Proposed Budget includes funding for:

Category	Position	Position Count
<b>FY 2025-26 Staffing</b>		<b>163.74</b>
Administration and Town Offices	Deputy Town Attorney	1.0
	Administrative Assistant	.46
Community Development	Senior Planner	(.25)
Parks and Public Works	Parks Services Aide	.46
	Maintenance Worker	(.11)
<b>TOTAL RECOMMENDED FY 2026-27 STAFFING</b>		<b>165.30</b>

Non-Personnel

Non-Personnel budgets were developed based on the prior three-year actual expenses and then applied escalators to account for cost increases from FY 2024-25. One-time projects were excluded to reflect ongoing expenditure needs.

Major changes from the prior fiscal year include:

- Employee Compensation - Increasing primarily due to step progressions, cost of living adjustments, and requests to add one full-time position and a net of .56 part-time hours. Additionally, increases in retirement costs are driven by increased CalPERS costs and other benefit categories driven by health rate changes.
- Operating Expenditures - The result is a reduction of \$1.3 million in the operating expenditure category due to the setting of the base budget for this category.
- Internal Service Charges - Increasing because of the full charge out of costs related to IT and Vehicle and Equipment Replacement.

*General Fund Revenue*

The Town's General Fund revenues for the upcoming fiscal year are projected to be \$64.8 million, representing a decrease of \$1.7 million or 2.5% from the FY 2025-26 Estimate Budget.

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Category	FY 2025-26 Estimated	FY 2026-27 Proposed	Variance \$	% Variance
Property Tax	\$ 21,519,135	\$ 22,560,237	\$ 1,041,102	4.8%
VLF Backfill	5,406,000	5,664,604	258,604	4.8%
Sales Tax	9,175,517	9,738,517	563,000	6.1%
Franchise Tax	1,008,838	1,089,210	80,372	8.0%
Transient Occupancy Tax	2,255,805	2,278,360	22,555	1.0%
Business License Tax	2,601,500	2,679,550	78,050	3.0%
Licenses & Permits	7,014,459	7,549,926	535,467	7.6%
Intergovernmental	1,307,778	741,477	(566,301)	-43.3%
Town Services	6,947,848	5,405,946	(1,541,902)	-22.2%
Fines & Forfeitures	312,775	315,200	2,425	0.8%
Interest	1,913,261	1,926,877	13,616	0.7%
Other Sources	6,435,102	4,302,773	(2,138,854)	-33.1%
Operating Transfers In	582,029	562,411	(19,618)	-3.4%
<b>TOTAL</b>	<b>\$ 66,480,047</b>	<b>\$ 64,815,087</b>	<b>\$ (1,664,960)</b>	<b>-2.5%</b>

Property tax (including VLF Backfill)– Increased by \$1.3 million primarily due to actual growth in FY 2024-25 and updated budget methodology to align budget with actuals.

Sales Tax - Increased by \$0.6 million primarily due to actual growth in FY 2024-25 and updated budget methodology to align budget with actuals.

Intergovernmental revenues – Decreased due to the last year of funding for the Cannabis Tax Grant.

Town Services – Decreased due to recent years, including higher revenue from major planning efforts that are not expected to return. Updating this category to match historical averages ensures a realistic baseline moving forward.

Other Sources – Decreased due to the one-time sale of 4 Tait that is anticipated to close in FY 2025-26 and is offset by increased revenue from the OPEB Trust to partially fund retiree medical pay as you go costs.

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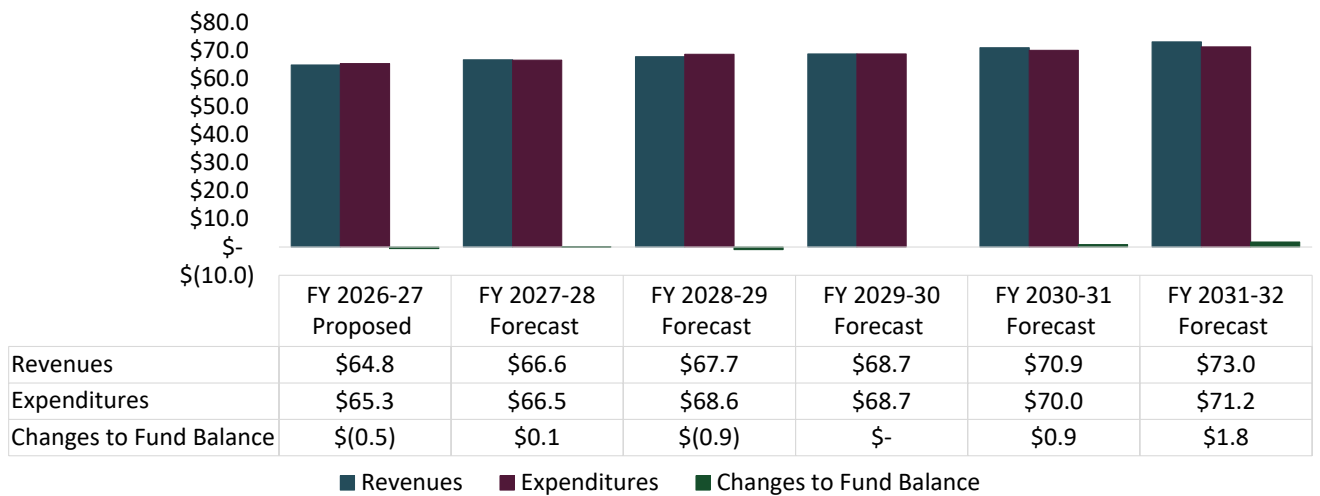
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General Fund Forecast

The Town’s forecast has been significantly improved since the FY 2025-26 update provided to the Town Council in February 2026. This is driven by increased revenues of \$2.8 million from the original FY 2026-27 forecast, primarily in property and license and permit revenues, and modest increases in various other revenue categories. These increased revenues build the base that future projections are calculated from creating long-term positive impacts in the forecast. Expenditures are up \$0.2 million, driven primarily by decreases in operating expenditures, and offset by increases in various other expenditure categories.

The graph below shows the proposed FY 2026-27 Proposed Budget and five forecast years for revenue, expenditures and changes to fund balance.

Chart 3 General Fund Forecast (in millions)

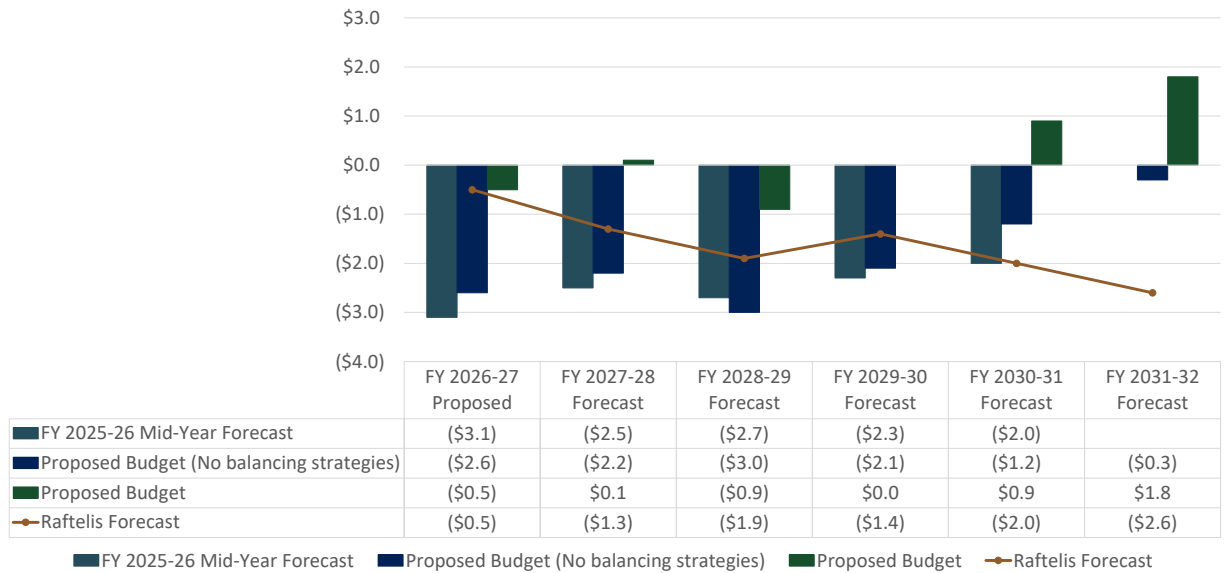


The Town has been proactive in reviewing its base amount and growth factors, which included a contract with NHA Advisors, who subcontracted the baseline forecast and independent review of Town finances to Raftelis. The chart below shows four distinct forecast and their resulting impacts on the fund balance. They include the forecast presented at mid-year, a forecast with no budget balancing strategies, the forecast from the FY 2026-27 Proposed Budget, and the Raftelis forecast presented to the Town Council in April 2026.

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Chart 4 General Fund Forecast Comparisons (in millions)



As indicated in the chart, the Town’s efforts in reducing costs and improving revenue forecast over the last few years have started to show an improved forecast. Raftelis model shows the largest deficit because it was meant to show the Council a base case if no budget balancing strategies are utilized and the Town resumes an annual transfer of \$1 million to the GFAR. The Town has now improved the trajectory of its forecast, but as discussed later in the ongoing challenges section, this may represent only a slight reprieve, and the Council and staff should remain diligent in looking for ways to slow expenditure growth to align with revenues and seek out options to fund a backlog of infrastructure projects.

Overall, this forecast reaffirms the Town’s commitment to responsible financial management and positions the Town to remain resilient in the face of future uncertainties.

**Capital Improvement Program (CIP)**

The FY 2026-27 CIP is recommended at \$6,454,919; this total includes \$557,489 in transfers out to the General Fund to fund part-time staff associated with CIPs. Total projects are recommended at 5,897,430; this includes projects across three categories, Street Improvements, Parks and Trails, and Infrastructure. CIP funding sources are:

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Funding Type	Funding Source	Carry Forward	FY 2026-27 Recommended CIP	Total
Ongoing	Gas Tax	\$ 2,426,270	\$ 1,917,807	\$ 4,344,077
One-Time	GFAR	10,182,115	3,812,873	13,994,988
	Grant Fund	4,606,311	36,750	4,643,061
	Storm Drain Fees	1,570,000	130,000	1,700,000
<b>Total Recommended CIP</b>		<b>\$ 18,784,696</b>	<b>\$ 5,897,430</b>	<b>\$ 24,682,126</b>

Within each category projects, are further broken down by new projects, existing projects with additional funding requests, and finally carryforward projects that are not requesting any additional funding.

The CIP includes recommendations to fund the following projects by Category:

Category	Project Name	One-time/ Ongoing	Estimated Carryforward	FY 2026-27 Proposed Budget	Total FY 2026-27 w/carryforward
<b>STREET IMPROVEMENTS</b>					
New	Impact Fee Study	One-Time	-	300,000	300,000
	East Main Street Crosswalk Improvements	One-Time	-	75,000	75,000
	Green Stormwater Infrastructure	Ongoing	-	100,000	100,000
	Timber Bridge Inspection		-	50,000	50,000

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Category	Project Name	One-time/ Ongoing	Estimated Carryforward	FY 2026-27 Proposed Budget	Total FY 2026-27 w/carryforward
	Roadway Reconstruction Santa Cruz Avenue BHR to Hwy 9	One-Time	-	200,000	200,000
<b>Total New Street Improvement Projects</b>			<b>-</b>	<b>725,000</b>	<b>725,000</b>
Carryforward - With New Funding Requests	Street Repair & Resurfacing	Ongoing	6,357,803	2,865,680	9,223,483
	Rehab Crack & Seal		180,000	180,000	360,000
	Annual Street Restriping	Ongoing	30,000	15,000	45,000
	Roadside Fire Fuel Reduction	Ongoing	1,555,376	136,750	1,692,126
	Unanticipated Repairs	Ongoing	422,860	100,000	522,860
	Curb, Gutter & Sidewalk Maintenance	Ongoing	378,007	500,000	878,007
	Stormwater System – Pollution Prevention Compliance	Ongoing	43,481	30,000	73,481
	709 University Avenue Drainage System Replacement	One-Time	275,635	10,000	285,635
	Vasona Oaks Drainage Failure Repair	One-Time	190,263	120,000	310,263
	<b>Total Carryforward Street Improvement Projects</b>			<b>9,433,425</b>	<b>3,957,430</b>

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Category	Project Name	One-time/ Ongoing	Estimated Carryforward	FY 2026-27 Proposed Budget	Total FY 2026-27 w/carryforward	
Carryforward	Downtown Parking Lots Seal Coat & Restriping	Ongoing	65,161	-	65,161	
	Highway 17 Bicycle & Pedestrian Bridge - Design	One-Time	3,290,173	-	3,290,173	
	Annual Storm Drain Improvement Project	Ongoing	179,862	-	179,862	
	Loma Street Drainage	One-Time	699,240	-	699,240	
	Blossom Hill Road – Union to Camden	One-Time	800,000	-	800,000	
	Storm Drainage Mapping	Ongoing	266,681	-	266,681	
	Shannon Road Repair	One-Time	1,748,464	-	1,748,464	
	<b>Total Carryforward + New Funding Requests Street Improvement Projects</b>			<b>7,049,581</b>	<b>-</b>	<b>7,049,581</b>
	<b>TOTAL STREET IMPROVEMENT PROJECTS</b>			<b>16,483,006</b>	<b>4,682,430</b>	<b>21,165,436</b>
<b>Parks and Trails</b>						
Carryforward - With New Funding Requests	Parks Playground Fibar Project	Ongoing	41,564	20,000	61,564	
	Vegetation Management Town-wide	Ongoing	498,135	100,000	598,135	
<b>Total Carryforward + New Funding Parks and Trails Projects</b>			<b>539,699</b>	<b>120,000</b>	<b>659,699</b>	

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Category	Project Name	One-time/ Ongoing	Estimated Carryforward	FY 2026-27 Proposed Budget	Total FY 2026-27 w/carryforward
Carryforward	Sport Court Resurfacing	One-Time	149,803	-	149,803
	Oak Meadow Bandstand Area Improvements	One-Time	234,405	-	234,405
<b>Total Carryforward Parks and Trails Projects</b>			<b>384,208</b>	<b>-</b>	<b>384,208</b>
<b>TOTAL PARKS AND TRAILS PROJECTS</b>			<b>923,907</b>	<b>120,000</b>	<b>1,043,907</b>
<b>Infrastructure</b>					
New	Downtown Restroom Design (New)	One-Time	-	100,000	100,000
	41 Miles Avenue Emergency Management Improvements (New)	One-Time	-	525,000	525,000
	Library Lighting Controls Renovation (New)	One-Time	-	200,000	200,000
	Condition Assessment of Civic Center (New)	One-Time	-	250,000	250,000
<b>Total New Infrastructure Projects</b>			<b>-</b>	<b>1,075,000</b>	<b>1,075,000</b>
Carryforward - With New Funding Requests	Annual ADA Compliance Work	Ongoing	<b>67,870</b>	<b>20,000</b>	<b>87,870</b>
Carryforward	Battery Power Supply Library	Ongoing	2,818	-	2,818

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Category	Project Name	One-time/ Ongoing	Estimated Carryforward	FY 2026-27 Proposed Budget	Total FY 2026-27 w/carryforward
	Civic Center Plumbing Repair and HVAC Repairs	Ongoing	50,377	-	50,377
	ARC Interim Community Center	One-Time	437,500	-	437,500
	Fleet Service Outdoor Work Area (Design Phase)	One-Time	45,000	-	45,000
	Enterprise Resource Planning (ERP) Upgrade	One-Time	376,877	-	376,877
	IT Disaster Resiliency Project	One-Time	397,341	-	397,341
<b>TOTAL INFRASTRUCTURE PROJECTS</b>			<b>1,377,783</b>	<b>1,095,000</b>	<b>3,547,783</b>
<b>TOTAL STREET, PARKS AND TRAILS, AND PUBLIC FACILITIES PROJECTS</b>			<b>18,784,696</b>	<b>5,897,430</b>	<b>24,682,126</b>

**Ongoing Challenges**

The Town continues to face several ongoing fiscal and operational challenges that could significantly impact long-term financial sustainability. While the current high-interest rate environment has generated stronger-than-anticipated investment earnings and improved short-term cash performance, these conditions also create broader economic uncertainty and place pressure on future development activity, borrowing costs, and consumer spending. The Town’s investment portfolio has benefited from higher yields; however, investment revenue remains sensitive to future interest rate adjustments and broader market volatility.

Rising retirement and other post-employment benefit (OPEB) obligations continue to place structural pressure on the Town’s finances. CalPERS employer contribution rates remain elevated due to inflationary pressures, investment market fluctuations, demographic

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assumptions, and long-term pension liability amortization schedules. Similarly, OPEB obligations continue to require ongoing monitoring to ensure long-term sustainability and funding adequacy. Additionally, both categories have benefited from the high-interest rate environment, providing some relief in employer rates and funded status.

Although the Town's long-range financial forecast currently does not assume a recession scenario, economic slowdown risks remain significant. A recession could negatively affect economically sensitive revenues such as sales tax, transient occupancy tax (TOT), licenses and permits, and development-related activity. Sales tax performance, while relatively stable in the near term, remains vulnerable to changing consumer behavior, inflationary impacts, and continued shifts toward online purchasing patterns. In addition, several anticipated new sales tax revenue streams have not yet been fully realized, creating uncertainty around the timing and sustainability of future revenues.

The Town also continues to experience pressure within development-related revenues, which remain heavily influenced by market conditions, construction activity, and regional economic trends. Similarly, transient occupancy tax revenues continue to face uncertainty, as the full financial impact of recent hotel closures and reduced lodging inventory is still unknown. While tourism and travel activity have generally improved post-pandemic, the Town has not yet fully stabilized its TOT base.

At the same time, the Town faces substantial long-term infrastructure obligations. Current estimates identify more than \$300 million in unfunded capital needs across facilities, streets, parks, utilities, and other public infrastructure assets. Without sustainable ongoing funding sources, these liabilities will continue to grow and may eventually require service level reductions, deferred maintenance, or future financing strategies.

Compounding these challenges is the Town's reduced ability to build reserves and address future liabilities. The FY 2026-27 budget does not include the customary \$1 million transfer to the General Fund Appropriated Reserve (GFAR), limiting the Town's ability to strengthen long-term fiscal resiliency. Additionally, no Measure G revenues are currently being directed toward GFAR; previously, about half, or \$600k, was transferred to the GFAR. While these actions may provide short-term budget flexibility, they reduce the Town's capacity to plan and fund infrastructure needs.

Collectively, these challenges highlight the importance of continued fiscal discipline, conservative forecasting, strategic reserve management, and ongoing evaluation of service delivery priorities to ensure the Town's long-term financial stability.

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### **Changes to the Budget Document**

The FY 2026-27 Proposed document has undergone a few changes one of which is the introduction of a base budget for the operating expenditure category. Town staff created a new base budget using an average of the last three years' actual expenditures. It then added escalators to account for increases in costs for FY 2025-26 and FY 2026-27. The result was a \$1.3 million in savings.

The five-year forecast has been combined with the financial summaries to ensure all vital financial data lives in one place in the document. Additionally, in response to comments and recommendations received, staff created a new chart to show revenues and expenses by category in the General Fund, three years of historical information, the estimate and proposed budget, and the five-year forecast.

The updated revenue and expenditure category sections also include a description of revenues or expenditures in the category, a discussion of historical and forecast changes, the final budget to actuals average dollar, and the percent differences based on three prior year actuals. This provides the reader with a quick, holistic view of each category.

The forecast introduces an Average Annual Growth Rate (AAGR) for the last five years of actuals. In the coming year, staff will refine the AAGR to account for one-time occurrences and create better future projections.

### **Donation Opportunities - FY 2026-27 List of Town Needs**

As part of the budget development process, the List of Town Needs is updated annually per Town Council Donation Policy (Attachment 3) to reflect goods, services, and other contributions that would help enhance Town services, programs, and events (Attachment 4).

### **CONCLUSION:**

The FY 2026-27 Proposed Operating and Capital Budget positions the Town to continue providing high-quality municipal services while maintaining a disciplined and strategic approach to financial management. The Proposed Budget reflects significant progress in improving the Town's long-term financial trajectory through enhanced forecasting methodologies, expenditure controls, and more conservative baseline budgeting practices.

Although the Town's financial outlook has improved compared to prior forecasts, significant long-term challenges remain, including rising pension and healthcare costs, uncertainty in economically sensitive revenues, limited reserve growth capacity, and substantial unfunded infrastructure obligations. These ongoing pressures reinforce the importance of continued fiscal

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discipline, conservative forecasting practices, and strategic investment in the Town's long-term financial resiliency.

The Proposed Budget balances operational needs with fiscal sustainability and demonstrates the Town's continued commitment to responsible stewardship of public resources. Staff will continue monitoring economic conditions, expenditure trends, and revenue performance throughout the fiscal year and will return to the Town Council with updates and recommendations as necessary.

Staff recommend that the Town Council conduct the public hearing, receive public input, provide direction on Finance Commission recommendations and proposed budget modifications, and continue consideration of the FY 2026-27 Proposed Operating and Capital Budget as part of the Town's budget adoption process.

ALTERNATIVES:

Staff would like to recommend the following changes to the FY 2026-27 Proposed Budget for council consideration:

- Reduction of Vehicle and Equipment Fund internal service fund charges by \$1.5 million, consistent with Finance Commission's recommendations.
- Transfer out \$811,334 of reduced general fund internal service fund charges from the General Fund to the Facilities Internal Service Fund for projects identified in Attachment 2.
- Approve a budget increase of \$335,083 for the Facilities Internal Service Fund budget for projects identified for FY 2026-27 in Attachment 2.
- Approve a budget increase of \$134,368 for the following three contracts in Public Works that have had costs come in higher than currently budgeted: Pacific Water Art, Throne Restrooms, Specialized Elevator Corp, and Field Turf USA.

The net impact to the General Fund would be a reduction in expenses of \$579,027, resulting in a FY 2026-27 General Fund budget with a minor surplus of \$6,503.

COORDINATION:

The preparation of the budget documents involved the participation of all Town Departments. The Finance Commission deliberated and provided its recommendations to the Council as discussed in this report.

ENVIRONMENTAL ASSESSMENT:

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

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**Attachments:**

1. Finance Commission Recommendations and Staff Responses
2. Tier 3 Projects - Facilities Needs
3. Solicitation and Donation Policy
4. Donation Opportunities List 2026-27