



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 04/27/2026

ITEM NO: 1

**DESK ITEM**

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DATE: April 27, 2026  
TO: Finance Commission  
FROM: Chris Constantin, Town Manager  
SUBJECT: Review and Discuss the Preliminary Proposed FY 2026-27 Operating and Capital Summary Budget. Provide Preliminary Comments and Recommendations Regarding the Proposed Budget

**REMARKS:**

Attachment 2 includes commissioner comments and attachment 3 includes public comment.

**Attachments included with the Staff Report:**

1. Corrections and clarifications to the Proposed FY 2026-27 Operating and Capital Budgets

**Attachments distributed with this Desk Item:**

2. Commissioner Comments
3. Public Comment

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

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Reviewed by: Town Manager and Town Attorney

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# MEMORANDUM — DRAFT

*Sole Work Product of Phil Koen*

**TO:** Chris Constantin, Town Manager  
**FROM:** Phil Koen  
**DATE:** April 23, 2026  
**SUBJECT:** FY 2026-27 Proposed Expense Budget — Constructive Input

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## Overview

This memo provides constructive input on the FY 2026-27 proposed General Fund expense budget of \$65.4 million. The budget reflects a 9.2% increase over the FY26 estimate — the largest single-year increase in the six-year dataset — following three years of essentially flat spending. While the overall direction is understandable given deferred costs and rising obligations, several line items warrant additional documentation, policy clarification, or risk disclosure before the budget is presented for adoption.

Three cost forces are at work simultaneously: pension and benefit obligations that have been allowed to compound through inaction on the unfunded liability; negotiated compensation increases for existing staff; and a significant Internal Service Charge reallocation whose basis has not been documented in the budget materials. The recommendations below are organized by priority.

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## 1. Immediate Actions Required

**Internal Service Charges: Provide Methodology Documentation.** The proposed +40.4% increase (\$4.7M → \$6.6M) in a single year has no precedent in the six-year dataset and is the largest unexplained item in the budget. ISC allocations are internally determined and invisible to the public without disclosure. Before adoption, staff should provide a written explanation of: (a) which cost pools are driving the increase; (b) whether this reflects a methodology change, a new program, or a capital amortization; and (c) whether the increase is permanent or a one-time step-up. Without this, the budget cannot be fully evaluated.

**Budgeted Staffing Levels vs. Actual Cost to Deliver Services.** The FY27 budget proposes a gross salary figure of \$26.2M, then applies a 4.6% vacancy savings offset of (\$2.0M) to arrive at a net budgeted cost of \$24.2M. The use of a vacancy savings offset is a reasonable budgeting practice — but its consistent appearance year after year carries an important implication: the Town routinely budgets for more positions than it actually fills. The actuals tell the story directly. The Town delivered its current service levels at a net salary cost of \$23.4M in FY26. The budget is asking: why does it cost \$26.2M to budget for those same services in FY27?

The \$2.8M gap between the gross budget (\$26.2M) and what was actually spent in FY26 (\$23.4M) is not a rounding difference — it is a 12% structural overage in the authorized position count relative to demonstrated need. A vacancy savings offset built on top of an already-

overstated salary base does not solve this problem; it masks it. The Town should instead right-size the authorized position count to reflect actual operational requirements, budget gross salary closer to what is genuinely expected to be spent, and eliminate the need for a standing vacancy offset altogether. This would produce a more transparent budget, reduce the risk of positions being filled opportunistically to absorb available budget, and give the Council a clearer line of sight between staffing decisions and service delivery.

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## 2. Items Requiring Verification

**CalPERS Benefits (+18.2%): The Cost of Inaction on the Unfunded Liability.** The +18.2% increase in CalPERS contributions (\$8.8M → \$10.4M) is not simply an actuarial inevitability — it is in large part the direct consequence of a deliberate choice not to act. The Finance Committee previously recommended that the Town make Additional Discretionary Payments (ADPs) to pay down the unfunded pension liability. That recommendation was not followed. The Town is now paying the price: CalPERS charges 6.7% interest on the unfunded balance, and the associated amortization schedule — with its ramp-up and ramp-down structure — is driving the required contribution rate sharply higher. Each year that an ADP is deferred, the compounding interest on the unfunded liability increases the required base contribution in every subsequent year.

The Town currently holds approximately \$4.0M in a Section 115 pension trust — funds set aside specifically for this purpose. Deploying those funds as an ADP to CalPERS would immediately reduce the outstanding unfunded liability balance, which would in turn reduce the required amortization payment in the very next rate cycle. At a 6.7% guaranteed effective return (the rate at which CalPERS credits ADP payments against the unfunded balance), this is among the highest risk-adjusted returns available to the Town on any use of reserves. To hold \$4.0M in a 115 trust while simultaneously absorbing a \$1.6M annual increase in CalPERS contributions — contributions driven by the very liability those reserves exist to address — is indefensible from a fiscal management standpoint.

The FY27 budget should include an ADP from the 115 trust to CalPERS. The Finance Committee's prior recommendation on this point was sound and should be acted upon before this budget is adopted. Continuing to defer this payment while the unfunded liability compounds at 6.7% and drives required contributions higher each year is not a conservative financial posture — it is fiscal malpractice.

**All Other Benefits (+18.9%).** Health, dental, and vision premiums at this growth rate are above the national healthcare inflation benchmark of 6–10%. Staff should confirm this reflects actual renewal rates from the Town's benefit carriers, and consider whether plan design changes or a competitive re-bid of benefits could moderate the trajectory. This line has grown +70% cumulatively since FY22.

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## 3. Longer-Term Structural Recommendations

Beyond the FY27 budget cycle, the data reveals structural cost pressures that merit strategic attention:

- **Benefits cost trajectory.** CalPERS, All Other Benefits, and OPEB combined have grown from \$11.6M (FY22) to a projected \$18.9M (FY27) — a +63% increase in five years and the single largest driver of expenditure growth in the budget. The CalPERS

component of this increase is directly addressable: deploying the \$4.0M held in the Section 115 trust as an ADP would reduce the amortization base immediately and begin bending the contribution rate curve downward. The Finance Committee has previously recommended this course of action. Every year it is deferred, the Town pays 6.7% compound interest on the avoided payment and absorbs higher required contributions in return. The remaining benefits trajectory — health, dental, and OPEB — should be addressed through a multi-year forecast and periodic competitive re-bid of benefit carriers.

- **Internal Service Charges governance.** ISC has grown from \$2.6M (FY22) to \$6.6M (FY27), a +154% increase. This level of growth in internal allocations warrants a periodic independent review of the ISC methodology to ensure allocations are equitable, accurately reflect actual support department costs, and are not being used to obscure spending growth in specific programs.
- **Operating Expenditure baseline.** The sharp decline in Operating Expenditures from \$11.7M (FY23) to \$6.2M (FY25) likely reflects deferred maintenance and service delivery. The return to \$10.2M in FY27 is appropriate, but the Town should establish a formal deferred maintenance reserve to prevent future artificial suppression of this line and the service delivery risk it creates.
- **Revenue alignment.** Total expenditures are projected to grow at 9.2% in FY27 while the revenue forecast shows growth of approximately 4–5%. The structural gap this creates — visible in the forecast’s net revenue line turning negative in FY27 — warrants a revenue strategy discussion alongside the expense budget to ensure long-term fiscal sustainability.

#### 4. Line Item Scorecard

| Line Item                 | FY27 Change | Assessment                 | Recommended Action                           |
|---------------------------|-------------|----------------------------|--|
| Net Salary                | +3.4%       | ✓ Reasonable               | Budget gross salary closer to expected spend |
| CalPERS Benefits          | +18.2%      | ✗ ADP overdue; compounding | Deploy \$4M 115 trust as ADP immediately     |
| All Other Benefits        | +18.9%      | ⚠ Above trend              | Benchmark vs. peer agencies                  |
| OPEB Pay as You Go        | 0.0%        | ✓ Conservative             | No action required                           |
| Operating Expenditures    | +7.4%       | ✓ Normalization            | No action required                           |
| Internal Service Charges  | +40.4%      | ✗ Requires explanation     | Provide methodology detail                   |
| Overstated Position Count | (\$2.0M)    | ⚠ Structural overage       | Right-size position count to actual need     |

## Conclusion

The FY 2026-27 expense budget is directionally reasonable — it reflects genuine cost pressures from pension obligations, healthcare inflation, and compensation agreements. However, two items require attention before adoption. The Internal Service Charge spike needs documented methodology to be evaluated on its merits. And the salary budget structure — in which a \$26.2M gross figure is offset back to a level only modestly above what it cost to deliver services in FY26 — points to a structural overage in the authorized position count that should be addressed directly rather than managed through a standing vacancy offset. Tightening the gross salary budget to reflect actual operational requirements would produce a more transparent budget and reduce the risk of positions being filled to absorb available authorization.

I am happy to discuss any of these points further or provide additional analysis in support of the budget process.

## General Fund Expenditure

FY24–FY25: Actuals | FY26: Estimate | FY27: Proposed | FY28: Forecast

| Expenditure Category           | FY24<br>Actual | FY25<br>Actual | \$ Chg<br>24 → 25 | % Chg<br>24 → 25 | FY26<br>Estimate |
|--------------------------------|----------------|----------------|-------------------|------------------|------------------|
| Salary                         | 21.5           | 22.4           | +0.9              | +4.2%            | 23.4             |
| 4.6% Salary & Benefits Savings | -              | -              | -                 | "-"              | -                |
| <b>Net Salary</b>              | <b>21.5</b>    | <b>22.4</b>    | <b>+0.9</b>       | <b>+4.2%</b>     | <b>23.4</b>      |
| Overtime                       | 1.3            | 1.3            | -                 | -                | 1.4              |
| CalPERS Benefits               | 7.4            | 8.3            | +0.9              | +12.2%           | 8.8              |
| All Other Benefits             | 4.3            | 4.9            | +0.6              | +14.0%           | 5.3              |
| OPEB Pay as You Go             | 1.6            | 1.9            | +0.3              | +18.8%           | 2.2              |
| Operating Expenditures         | 9.8            | 6.2            | (3.6)             | (36.7%)          | 9.5              |
| Grants & Awards                | 0.7            | 0.7            | -                 | -                | 0.3              |
| Utilities                      | 0.7            | 0.8            | +0.1              | +14.3%           | 0.7              |
| Internal Service Charges       | 3.2            | 4.2            | +1.0              | +31.3%           | 4.7              |
| Debt Service                   | 2.1            | 2.1            | -                 | -                | 2.1              |
| Pension (Discretionary)        | 0.7            | 0.7            | -                 | -                | 0.7              |
| Capital Transfers Out to GFAR  | 1.6            | 1.1            | (0.5)             | (31.3%)          | -                |
| Transfer to General Liability  | -              | 0.1            | +0.1              | "-"              | -                |
| Fixed Assets/Equipment         | -              | -              | -                 | "-"              | 0.2              |
| 1/2 Measure G to Capital       | 0.7            | 0.6            | (0.1)             | (14.3%)          | -                |
| Allocate to ERAF Risk Reserve  | 0.7            | -              | (0.7)             | (100.0%)         | -                |
| Allocate to Pension Trust      | 0.7            | 0.7            | -                 | -                | 0.6              |
| <b>TOTAL EXPENDITURES</b>      | <b>78.5</b>    | <b>78.4</b>    | <b>(0.1)</b>      | <b>(0.1%)</b>    | <b>83.3</b>      |

## Analysis — Year-over-Year Changes

| Source: FY 2026-27 Proposed Operating Budget (updated 4-12-2026) | Amounts in \$Millions

| \$ Chg<br>25 → 26 | % Chg<br>25 → 26 | FY27<br>Proposed | \$ Chg<br>26 → 27 | % Chg<br>26 → 27 | FY28<br>Forecast | \$ Chg<br>27 → 28 | % Chg<br>27 → 28 | Total \$<br>24 → 28 |
|-------------------|------------------|------------------|-------------------|------------------|------------------|-------------------|------------------|---------------------|
| +1.0              | +4.5%            | 26.2             | +2.8              | +12.0%           | 27.2             | +1.0              | +3.8%            | +5.7                |
| -                 | "-               | (2.0)            | (2.0)             | "-               | (2.1)            | (0.1)             | (5.0%)           | (2.1)               |
| <b>+1.0</b>       | <b>+4.5%</b>     | <b>24.2</b>      | <b>+0.8</b>       | <b>+3.4%</b>     | <b>25.1</b>      | <b>+0.9</b>       | <b>+3.7%</b>     | <b>+3.6</b>         |
| +0.1              | +7.7%            | 1.5              | +0.1              | +7.1%            | 1.5              | -                 | -                | +0.2                |
| +0.5              | +6.0%            | 10.4             | +1.6              | +18.2%           | 10.4             | -                 | -                | +3.0                |
| +0.4              | +8.2%            | 6.3              | +1.0              | +18.9%           | 6.3              | -                 | -                | +2.0                |
| +0.3              | +15.8%           | 2.2              | -                 | -                | 2.3              | +0.1              | +4.5%            | +0.7                |
| +3.3              | +53.2%           | 10.2             | +0.7              | +7.4%            | 10.2             | -                 | -                | +0.4                |
| (0.4)             | (57.1%)          | 0.3              | -                 | -                | 0.3              | -                 | -                | (0.4)               |
| (0.1)             | (12.5%)          | 0.8              | +0.1              | +14.3%           | 0.8              | -                 | -                | +0.1                |
| +0.5              | +11.9%           | 6.6              | +1.9              | +40.4%           | 6.8              | +0.2              | +3.0%            | +3.6                |
| -                 | -                | 2.1              | -                 | -                | 2.1              | -                 | -                | -                   |
| -                 | -                | 0.4              | (0.3)             | (42.9%)          | 0.4              | -                 | -                | (0.3)               |
| (1.1)             | (100.0%)         | -                | -                 | "-               | -                | -                 | "-               | (1.6)               |
| (0.1)             | (100.0%)         | -                | -                 | "-               | -                | -                 | "-               | -                   |
| +0.2              | "-               | -                | (0.2)             | (100.0%)         | -                | -                 | "-               | -                   |
| (0.6)             | (100.0%)         | -                | -                 | "-               | -                | -                 | "-               | (0.7)               |
| -                 | "-               | -                | -                 | "-               | -                | -                 | "-               | (0.7)               |
| (0.1)             | (14.3%)          | 0.4              | (0.2)             | (33.3%)          | 0.4              | -                 | -                | (0.3)               |
| <b>+4.9</b>       | <b>+6.2%</b>     | <b>89.6</b>      | <b>+6.3</b>       | <b>+7.6%</b>     | <b>91.7</b>      | <b>+2.1</b>       | <b>+2.3%</b>     | <b>+13.2</b>        |



|                            |
|----------------------------|
| <b>Total %<br/>24 – 28</b> |
| <b>+26.5%</b>              |
| "_"                        |
| <b>+16.7%</b>              |
| <b>+15.4%</b>              |
| <b>+40.5%</b>              |
| <b>+46.5%</b>              |
| <b>+43.8%</b>              |
| <b>+4.1%</b>               |
| <b>(57.1%)</b>             |
| <b>+14.3%</b>              |
| <b>+112.5%</b>             |
| -                          |
| <b>(42.9%)</b>             |
| <b>(100.0%)</b>            |
| "_"                        |
| "_"                        |
| <b>(100.0%)</b>            |
| <b>(100.0%)</b>            |
| <b>(42.9%)</b>             |
| <b>+16.8%</b>              |

**From:** Adam Fischer [REDACTED]  
**Sent:** Sunday, April 26, 2026 8:03 PM  
**To:** Wendy Wood <[WWood@losgatosca.gov](mailto:WWood@losgatosca.gov)>; Kristina Alfaro <[KAlfaro@losgatosca.gov](mailto:KAlfaro@losgatosca.gov)>  
**Cc:** Chris Constantin <[CConstantin@losgatosca.gov](mailto:CConstantin@losgatosca.gov)>  
**Subject:** FY 2026-27 Proposed Budget

[EXTERNAL SENDER]

A couple questions on the proposed budget:

- 1) Given that Raftelis was retained to improve the accuracy of our budget and forecasting, why are we not using their assumptions in the proposed budget?
- 2) On page 153 there is a line that reads "utilizing the 115 trust for this purpose would also eliminate local discretion over the funds, including investment decisions and the ability to use the trust balance to offset a significant deficit in lieu of service-level reductions". I do not see any where in the policy statement for the 115 trust that the funds can be used for the purpose of offsetting service level reductions.
- 3) Page 152, discusses overtime and the unpredictability, yet we are budgeting for a constant overtime occurrence. What steps are in place to avoid anchoring to these historically high levels. The concern is in the lack of incentive to manage it down.
- 4) We should remove references to discretionary pension funding that happened in 2014. The reason being is that it incorrectly implies active steps being taken to reduce. Instead, acknowledge the annual funding and additions to the 115 trust. More transparent.
- 5) Please confirm the historical project led revenues for fines and forfeitures on page 145. (94% or \$.2m higher). And, there is no percentage provided for the intergovernmental revenue decrease of \$.6M on page 141.

Looking forward to chatting on this later.

Adam Fischer

**From:** Adam Fischer [REDACTED]  
**Sent:** Monday, April 27, 2026 9:49 AM  
**To:** Wendy Wood <[WWood@losgatosca.gov](mailto:WWood@losgatosca.gov)>; Kristina Alfaro <[KAlfaro@losgatosca.gov](mailto:KAlfaro@losgatosca.gov)>  
**Cc:** Chris Constantin <[CConstantin@losgatosca.gov](mailto:CConstantin@losgatosca.gov)>  
**Subject:** Proposed CIP Budget

[EXTERNAL SENDER]

Couple of discussion topics for the proposed CIP:

- 1) The CIP is assuming normal wear and tear. Are there any updated development impact scenarios?
- 2) Have we identified the high impact areas and considered cost/benefits of deferring until after construction?
- 3) Are fees tied to actual ESAL usage or square footage? Is there an opportunity to revisit?
- 4) The transfer of \$1.1M for the General Fund to support capital projects has been eliminated for budgeting purposes. If no new revenue is approved, what does CIP look like in 3–5 years?

Sent from my iPhone

**From:** Gus Who [REDACTED]  
**Sent:** Saturday, April 25, 2026 11:17 AM  
**To:** Clerk <[Clerk@losgatosca.gov](mailto:Clerk@losgatosca.gov)>  
**Subject:** Public Item # 1 for Budget (special meeting)

[EXTERNAL SENDER]

To Whom It May Concern,

I object to this Financial Commissions Special Meeting placed on Towns "Agenda/ Minutes" website Thursday (April 23 -evening), not giving the public at large even 3 full business days to review the documents place on the Agenda. The Town Clerks office closes on Friday's early at 12 noon. Therefore I urge you to disapprove this town budget until a true Town audit can be undertaken as discrepancies have been cited by members of the public.

These Agenda Special Agenda Item Meetings tend to be posted after hours on the day posted, between 7 pm and 8 pm. This should not be a Stock Market mentality for day traders in our Town finances, to put in sell or buy orders in this Towns stock.

The One Agenda Item is to "Review and Discuss the Preliminary Proposed FY 2026-27 Operating and Capital Summary Budget, and Provide Preliminary Comments and Recommendations Regarding the Proposed Budget"

As a "Soccer Thing," having kicked a ball or two on the field in question, I had been looking at the budget for the overpriced turf replacement cost, budgeted at 2.5 million in timing with the World Cup. Being a retired General Contractor, looking up subcontractors to do the work at this time at about 1 million, even with the drainage issues to the right wing side corner of the pitch ... if headed towards the parking lot. It puddles! and a 20% mark up would still be 1/2 the cost proposed.

... asking public to review over  
233 Pages to review... .. CIP Budget ??

544 Pages to review ... In Proposed Operating Budget 2026 /2027 ??

As you all have been so-called informed of current issues ... and a kind of lack of transparency... with this notice, I am informing you all of ongoing issues in hiring practices, discrepancies in the book keeping .. as brought up by members of the public ...

I again urge this financial commission to take a real good look at THINGS! It's Saturday Morning, April 25 and am not able to post in time ... this deadline in inclusion for an addendum, as it states "-3:00 p.m. the business day before the Commission meeting for inclusion in an addendum"

**ATTACHMENT 3**

Please continue this agenda and schedule for a regular meeting and give 10-day rule ..

Note: Sell Order to be placed on the Town, as the Town book-keeping ... don't line up in this  
Cat and a Hat .. book-E

Respectively Submitted

**Tim E**

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**for meeting only.**

Gus Who