



**TOWN OF LOS GATOS  
FINANCE COMMISSION REPORT**

MEETING DATE: 05/11/2026

ITEM NO: 6

**ADDENDUM**

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DATE: May 8, 2026  
TO: Finance Commission  
FROM: Chris Contantin, Town Manager  
SUBJECT: Continue to Review, Discuss, and Make Recommendations on the Preliminary Proposed FY 2026-27 Operating and Capital Budget

REMARKS:

Attachment 1 includes commissioner comments and attachment 2 includes public comment.

Attachments Distributed with this Addendum:

1. Commissioner Comments
2. Public Comment

PREPARED BY: Kristina Alfaro  
Administrative Services Director

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Reviewed by: Town Manager and Town Attorney

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**From:** [Adam Fischer](#)  
**To:** [Kristina Alfaro](#)  
**Cc:** [Chris Constantin](#); [Wendy Wood](#)  
**Subject:** Finance Commission recommendation  
**Date:** Wednesday, May 6, 2026 4:20:45 PM

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[EXTERNAL SENDER]

Hi Kristina-

Given the significance of long-term financial planning assumptions and the potential policy implications tied to analyses prepared by NHA Advisors, the Finance Commission recommends that any formal analyses, forecasts, or advisory recommendations produced by NHA first be presented to the Finance Commission for review and discussion prior to Council consideration or implementation.

This process would strengthen transparency, provide an opportunity for independent financial review, and allow the Commission to evaluate underlying assumptions, methodology, fiscal impacts, and consistency with the Town's broader long-term financial strategy before recommendations advance further in the decision-making process.

Thank you.

Adam Fischer

**From:** Phil Koen [REDACTED]  
**Sent:** Friday, May 8, 2026 10:16 AM  
**To:** Town Manager <Manager@losgatosca.gov>; Kristina Alfaro <KAlfaro@losgatosca.gov>;  
Ashby Monk [REDACTED]; [REDACTED];  
[REDACTED] Matthew  
Hudes <MHudes@losgatosca.gov>; Maria Ristow <MRistow@losgatosca.gov>  
**Cc:** Wendy Wood <WWood@losgatosca.gov>  
**Subject:** Discussion for the next FC meeting

[EXTERNAL SENDER]

Ashby and Kristina,

I would like to request approximately 20 minutes at the next FC meeting to discuss the FY 27 CIP budget with a focus on two projects – the annual street repair and resurfacing project and the Highway 17 Bicycle Bridge project.

I have attached two presentations that I have prepared to help guide the discussion. I previously sent in both presentations but wanted to make sure the entire FC received them in advance of the meeting on Monday. Please note that the CIP presentation which is attached has been reformatted from the earlier version to make the discussion more focused.

Thank you,

Phil Koen

# Capital Improvement Program

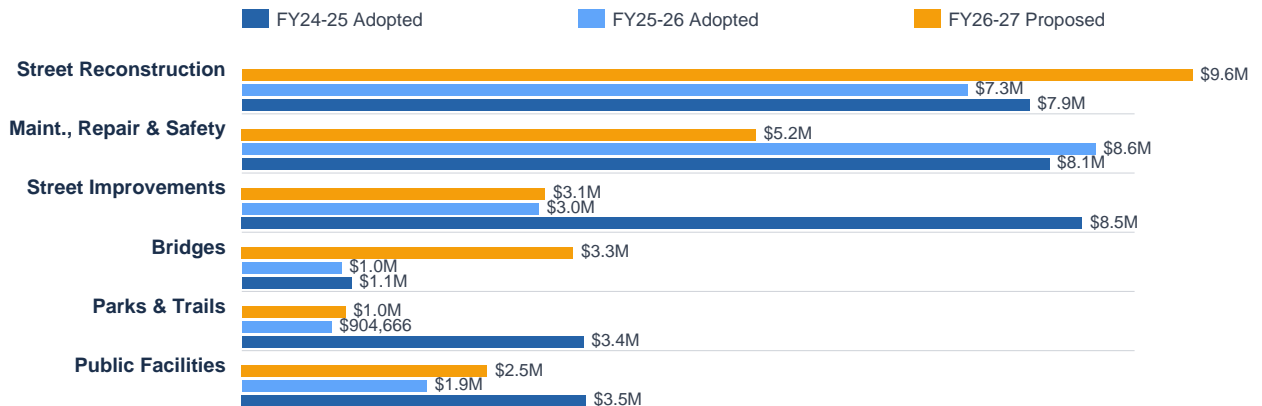
Schedule B-4 · Three-Year Budget Comparison · FY 2024-25 through FY 2026-27 · Includes Carryforward

| FY 2024-25 ADOPTED  | FY 2025-26 ADOPTED                     | FY 2026-27 PROPOSED                   |
|---------------------|--|---------------------------------------|
| <b>\$32,568,599</b> | <b>\$22,687,140</b>                    | <b>\$24,682,126</b>                   |
| Baseline year       | ▼ <b>-\$9,881,459 (-30.3%) vs FY25</b> | ▲ <b>+\$1,994,986 (+8.8%) vs FY26</b> |

| CATEGORY                          | FY 2024-25 ADOPTED  | SH          | FY 2025-26 ADOPTED  | SH          | FY 2026-27 PROPOSED | SH          | FY25→26 CHANGE                | FY26→27 CHANGE                |
|-----------------------------------|---------------------|-------------|---------------------|-------------|---------------------|-------------|-------------------------------|-------------------------------|
| <b>STREETS PROGRAM</b>            |                     |             |                     |             |                     |             |                               |                               |
| Street Reconstruction ■           | \$7,939,304         | 24%         | \$7,314,145         | 32%         | \$9,583,483         | 39%         | -625,159<br>-7.9%             | +2,269,338<br>+31.0%          |
| Maintenance, Repair & Safety      | \$8,139,428         | 25%         | \$8,606,318         | 38%         | \$5,183,449         | 21%         | +466,890<br>+5.7%             | -3,422,869<br>-39.8%          |
| Street Improvements               | \$8,471,334         | 26%         | \$2,993,862         | 13%         | \$3,058,330         | 12%         | -5,477,472<br>-64.7%          | +64,468<br>+2.2%              |
| Bridges ■                         | \$1,106,319         | 3%          | \$1,003,473         | 5%          | \$3,340,173         | 14%         | -102,846<br>-9.3%             | +2,336,700<br>+232.9%         |
| <b>Streets Program Total</b>      | <b>\$25,656,386</b> | <b>79%</b>  | <b>\$19,917,798</b> | <b>88%</b>  | <b>\$21,165,436</b> | <b>86%</b>  | <b>-5,738,588<br/>-22.4%</b>  | <b>+1,247,638<br/>+6.3%</b>   |
| <b>PARKS &amp; TRAILS PROGRAM</b> |                     |             |                     |             |                     |             |                               |                               |
| Park Improvements                 | \$1,228,433         | 4%          | \$401,374           | 2%          | \$445,772           | 2%          | -827,059<br>-67.3%            | +44,398<br>+11.1%             |
| Trail Improvements                | \$2,214,813         | 7%          | \$503,292           | 2%          | \$598,135           | 2%          | -1,711,521<br>-77.3%          | +94,843<br>+18.8%             |
| <b>Parks &amp; Trails Total</b>   | <b>\$3,443,246</b>  | <b>11%</b>  | <b>\$904,666</b>    | <b>4%</b>   | <b>\$1,043,907</b>  | <b>4%</b>   | <b>-2,538,580<br/>-73.7%</b>  | <b>+139,241<br/>+15.4%</b>    |
| <b>PUBLIC FACILITIES PROGRAM</b>  |                     |             |                     |             |                     |             |                               |                               |
| Infrastructure                    | \$2,841,081         | 9%          | \$1,049,438         | 4%          | \$1,698,565         | 7%          | -1,791,643<br>-63.1%          | +649,127<br>+61.9%            |
| Equipment                         | \$627,886           | 2%          | \$815,237           | 4%          | \$774,217           | 3%          | +187,351<br>+29.8%            | -41,020<br>-5.0%              |
| <b>Public Facilities Total</b>    | <b>\$3,468,967</b>  | <b>11%</b>  | <b>\$1,864,676</b>  | <b>8%</b>   | <b>\$2,472,782</b>  | <b>10%</b>  | <b>-1,604,291<br/>-46.2%</b>  | <b>+608,106<br/>+32.6%</b>    |
| <b>TOTAL PROJECT FUNDING</b>      | <b>\$32,568,599</b> | <b>100%</b> | <b>\$22,687,140</b> | <b>100%</b> | <b>\$24,682,126</b> | <b>100%</b> | <b>\$9,881,459<br/>-30.3%</b> | <b>+\$1,994,986<br/>+8.8%</b> |

■ Items flagged for program management review — see pages 3 and 4

## Budget by Category — Three-Year View



**■ REQUIRES FURTHER INSPECTION · Program Management Concern**

## Annual Street Repair & Resurfacing — Project 8101

Growing carryforward balance signals chronic underspending

| FY23-24 CARRYFORWARD | FY24-25 CARRYFORWARD | FY25-26 CARRYFORWARD | FY26-27 ANNUAL BUDGET         |
|----------------------|----------------------|----------------------|-------------------------------|
| <b>\$4,044,465</b>   | <b>\$3,629,307</b>   | <b>\$6,357,803</b>   | <b>\$2,865,680</b>            |
| 49% utilization      | 53% utilization      | 15% utilization      | Declining from \$3.5M in FY25 |

### Spending Detail

| YEAR       | ANNUAL BUDGET | ACTUAL SPEND | CARRYFORWARD | UTILIZATION |
|------------|---------------|--------------|--------------|-------------|
| FY 2023-24 | \$3,534,839   | \$3,723,736  | \$4,044,465  | 49%         |
| FY 2024-25 | \$3,504,839   | \$3,758,469  | \$3,629,307  | 53%         |
| FY 2025-26 | \$2,865,680   | \$977,914    | \$6,357,803  | <b>15%</b>  |

### Analysis

The Annual Street Repair & Resurfacing program is the Town's largest CIP line item. In FY 2025-26, actual spending collapsed to \$977,914 against \$6.5M available — a utilization rate of 15%. This is a sharp departure from the prior two years at 49–53%.

The carryforward entering FY 2026-27 of \$6.36M is the highest on record for this program and now represents 66% of the Street Reconstruction category budget.

While carryforward is normal in pavement programs due to construction season constraints and bid timing, a growing unresolved balance year over year raises concern that the program lacks the delivery capacity — staff bandwidth, contractor availability, or procurement processes — to execute approved appropriations. Deferred pavement treatment accelerates deterioration and increases long-term costs significantly.

### Questions Requiring Staff Response

**Spending Collapse:**

What specific streets were planned for resurfacing in FY 2025-26 and what caused spending to drop to \$978K — were contracts awarded and work deferred, or were bids never issued?

**Encumbrance Status:**

Is the \$6.36M carryforward tied to specific contracted work already scheduled for FY 2026-27, or is it unencumbered and available for reallocation?

**Pavement Condition:**

Has the Town's Pavement Condition Index (PCI) been updated to reflect the impact of deferred treatments, and what is the projected cost increase from delayed maintenance?

**Budget Adequacy:**

Does the declining annual appropriation of \$2.87M realistically reflect current construction costs per lane-mile, or is the program structurally underfunded?

■ **REQUIRES FURTHER INSPECTION · Program Management Concern**

## Highway 17 Bicycle & Pedestrian Bridge — Project 8510

\$3.29M design balance with no funded path to construction

| SPENT TO DATE (DESIGN)                | FY26-27 CARRYFORWARD    | EST. CONSTRUCTION COST  | UNFUNDED GAP             |
|---------------------------------------|-------------------------|-------------------------|--------------------------|
| <b>\$3.64M</b>                        | <b>\$3.29M</b>          | <b>~\$25M</b>           | <b>~\$22M+</b>           |
| Design only · No construction started | Remaining design budget | Per published estimates | After \$2.47M TDA3 grant |

### Spending Detail

| FUNDING SOURCE                            | AMOUNT                | STATUS                      |
|---|-----------------------|-----------------------------|
| Measure B (VTA) — Design                  | \$2,750,000           | Secured / Spent             |
| Town General Fund / Traffic Mit. — Design | ~\$1,000,000          | Secured / Spent             |
| TDA3 (MTC/VTA) — Construction             | \$2,468,786           | Approved June 2025          |
| Safe Streets for All (Federal)            | \$9,900,000           | Applied June 2025 · Pending |
| <b>Remaining Construction Gap</b>         | <b>~\$22,000,000+</b> | <b>Unfunded</b>             |
| <b>Est. Total Construction Cost</b>       | <b>~\$25,000,000</b>  | —                           |

### Analysis

The entire \$3.29M carryforward is design only — final engineering, Caltrans permitting, and environmental clearance. No construction funding exists in the six-year CIP through FY 2030-31.

As of June 2025, secured construction funding totals just \$2.47M against an estimated cost of ~\$25M. Staff’s own assessment puts full construction funding 3–5 years away, dependent on OBAG (2026) and Measure B (2029) calls.

The Finance Commission raised this concern during FY 2025-26 budget discussions. Staff acknowledged the Town is not obligated to continue with General Fund resources if grants do not materialize. The core question is whether the design carryforward is fully contracted or whether a portion can be deferred until construction funding is more certain.

### Questions Requiring Staff Response

**Contract Encumbrance:**

Is the \$3.29M carryforward fully encumbered under existing contracts with BKF Engineers, or is a portion discretionary and available for deferral?

**Grant Status:**

What is the current status of the June 2025 Safe Streets for All (SS4A) application — has a funding decision been issued by the USDOT?

**Fallback Plan:**

If SS4A is not awarded, what is the revised construction funding timeline and does the project remain viable on the current schedule?

**Decision Point:**

If construction funding remains unidentified when design completes (Q1 2026), what is staff’s formal recommendation — pause the project, shelve it, or proceed with phased construction?

## Project 8101 — Annual Street Repair & Resurfacing

FY 2026-27 Funding Schedule by Source · Carryforward and New Money · Schedule C-8

| FUNDING SOURCE  | CARRYFORWARD TO FY 2026-27 | CF SHARE     | NEW FY 2026-27 BUDGET | NEW SHARE    | TOTAL FY 2026-27 (W/ CARRYFORWARD) | TOTAL SHARE  |
|---|----------------------------|--------------|-----------------------|--------------|------------------------------------|--------------|
| <b>GENERAL FUND — GFAR</b>                                |                            |              |                       |              |                                    |              |
| Vehicle License Fee — 2010 Measure B                      | 180,000                    | 2.8%         | 180,000               | 5.9%         | 360,000                            | 3.8%         |
| VTA Allocation — Measure B (2016)                         | 857,873                    | 13.1%        | 857,873               | 28.2%        | 1,715,746                          | 17.9%        |
| Other GFAR (General Fund, Construction Impact Fee, other) | 3,073,660                  | 47.0%        | 90,000                | 3.0%         | 3,163,660                          | 33.0%        |
| <b>Total GFAR Fund</b>                                    | <b>4,111,533</b>           | <b>62.9%</b> | <b>1,127,873</b>      | <b>37.1%</b> | <b>5,239,406</b>                   | <b>54.7%</b> |
| <b>GRANTS &amp; AWARDS</b>                                |                            |              |                       |              |                                    |              |
| State / Federal Grants (prior year balance)               | —                          | —            | —                     | —            | —                                  | —            |
| <b>Total Grants &amp; Awards</b>                          | <b>—</b>                   | <b>—</b>     | <b>—</b>              | <b>—</b>     | <b>—</b>                           | <b>—</b>     |
| <b>GAS TAX FUND</b>                                       |                            |              |                       |              |                                    |              |
| Road Maint & Rehab Account — RMRA (SB 1)                  | 417,473                    | 6.4%         | 938,417               | 30.9%        | 1,355,890                          | 14.1%        |
| Other Gas Tax & Proposition 42                            | 2,008,797                  | 30.7%        | 979,390               | 32.2%        | 2,988,187                          | 31.2%        |
| <b>Total Gas Tax Fund</b>                                 | <b>2,426,270</b>           | <b>37.1%</b> | <b>1,917,807</b>      | <b>62.9%</b> | <b>4,344,077</b>                   | <b>45.3%</b> |
| <b>TOTAL PROJECT FUNDING</b>                              | <b>6,537,803</b>           | <b>100%</b>  | <b>3,045,680</b>      | <b>100%</b>  | <b>9,583,483</b>                   | <b>100%</b>  |

**Note on carryforward figures:** The project detail sheet (Schedule C-8) shows a total carryforward of **\$6,537,803** and new money of **\$3,045,680**, both \$180,000 higher than the B-5 summary schedule figures of \$6,357,803 and \$2,865,680. Per the C-8 footnote, **Project 8104 (Pavement Rehab-Crack Seal, \$180,000) is included within this presentation.** The \$9,583,483 grand total is consistent across both schedules. This schedule uses the C-8 fund-level figures which include Project 8104.

**Funding mix observation:** The General Fund (GFAR) carries **\$4.11M of the \$6.54M carryforward (62.9%)** — meaning the bulk of the unspent balance is General Fund money, not restricted Gas Tax or grant funds. New FY 2026-27 money is more evenly split: Gas Tax contributes \$1.92M (62.9% of new money) while GFAR contributes \$1.13M (37.1%). This is the expected pattern — Gas Tax is the ongoing revenue stream while GFAR accumulates when projects are delayed.

Source: Proposed CIP FY 2026-27, Schedule C-8 (Project 8101 & 8104 combined) · All figures verified against source document

## Is the Program Overfunded? — Analysis

Comparing \$9,583,483 available budget against three-year spending history and Commission recommendations

|   |
|---|
| <b>FY 2026-27 AVAILABLE</b><br><b>\$9,583,483</b><br>Carryforward \$6.54M + New \$3.05M                               |
| <b>3-YEAR AVG ANNUAL SPEND</b><br><b>\$2,820,040</b><br>FY23-24 through FY25-26 average                               |
| <b>COMMISSION RECOMMENDED</b><br><b>\$3,700,000</b><br>Dec 2025 Complete Streets Commission target to maintain PCI 80 |
| <b>IMPLIED SURPLUS AT \$3.7M SPEND</b><br><b>\$5,883,483</b><br>Would carry forward again to FY 2027-28               |

### HISTORICAL SPENDING UTILIZATION

| YEAR                         | AVAILABLE BUDGET   | ACTUAL SPEND     | UTILIZATION | CARRYFORWARD       |
|------------------------------|--------------------|------------------|-------------|--------------------|
| <b>FY 2023-24</b>            | ~\$7,578,304       | \$3,723,736      | 49%         | \$4,044,465        |
| <b>FY 2024-25</b>            | \$7,579,304        | \$3,758,469      | 50%         | \$3,629,307        |
| <b>FY 2025-26</b>            | <b>\$7,134,146</b> | <b>\$977,914</b> | <b>14%</b>  | <b>\$6,537,803</b> |
| <b>FY 2026-27 (Proposed)</b> | \$9,583,483        | TBD              | ?           | ?                  |

### SURPLUS AT VARIOUS SPENDING SCENARIOS

| SPENDING SCENARIO                    | ANNUAL SPEND       | SURPLUS REMAINING  | UTIL RATE |
|--------------------------------------|--------------------|--------------------|-----------|
| 3-year historical average            | \$2,820,040        | <b>\$6,763,443</b> | 29%       |
| Commission recommendation            | \$3,700,000        | <b>\$5,883,483</b> | 39%       |
| Best recent year (FY 2024-25)        | \$3,758,469        | <b>\$5,825,014</b> | 39%       |
| Full program delivery (aspirational) | \$6,000,000        | <b>\$3,583,483</b> | 63%       |
| <b>Total Available FY 2026-27</b>    | <b>\$9,583,483</b> | —                  | —         |

### ANALYSIS

**The program is materially overfunded relative to demonstrated delivery capacity.**

With \$9.58M available and a three-year average spend of \$2.82M, the Town would need to more than triple its FY 2025-26 spending just to reach the Commission-recommended \$3.7M target — and even at that level, over \$5.9M would carry forward again into FY 2027-28.

**The GFAR carryforward of \$4.11M is the most significant concern.** General Fund money is unrestricted and could be redirected to other Town priorities if the Street Repair program cannot demonstrate a credible plan to spend it. Gas Tax and Measure B funds, by contrast, are restricted to road uses and cannot easily be reprogrammed.

**The Complete Streets Commission's December 2025 recommendation of \$3.7M**

**annually** is an important benchmark. Even at this level, the Commission acknowledged PCI would decline from 82 to 80. The Town's current budget of \$3.05M in new money falls short of this target by **\$654,000** — yet there is **\$6.54M** in unspent carryforward sitting idle.

**The FY 2025-26 spending collapse to \$977,914 (14% utilization)** has never been explained publicly. Until staff provides a clear accounting of what happened — whether contracts were awarded and work deferred, or whether the bidding process broke down entirely — the Finance Commission cannot assess whether the \$9.58M proposed budget is realistic or whether history will repeat itself with another large carryforward in FY 2027-28.

#### **QUESTIONS REQUIRING STAFF RESPONSE**

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- **FY25-26 Spending Collapse:** What caused spending to fall to \$977,914 — were contracts awarded and deferred, or were bids never issued? What streets were planned and not completed?
- **GFAR Carryforward Justification:** Is the \$4.11M GFAR carryforward encumbered under specific contracts? If not, should a portion be returned to the General Fund or redirected to other unfunded needs?
- **Delivery Plan:** What is staff's specific plan to spend the \$9.58M in FY 2026-27 — which streets, what contract structure, and what is the bid schedule? Does the Town have sufficient contractor capacity?
- **Commission Recommendation Gap:** New money of \$3.05M falls \$654,000 short of the Commission's \$3.7M target. Given the large carryforward, is this gap meaningful, or is the program adequately funded in aggregate?

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*Sources: Proposed CIP FY 2026-27 (Schedule C-8) · Adopted CIP FY 2024-25 & FY 2025-26 (Schedule B-5) · Complete Streets & Transportation Commission recommendation, December 2025 · Phil Koen — Finance Commission Member*

**TOWN OF LOS GATOS — FINANCE COMMISSION**

**TO:** Chris Constantin, Town Manager & Kristina Alfaro, Director of Finance **FROM:** Phil Koen, Member, Finance Commission (on behalf of the Finance Commission) **DATE:** May 7, 2026

**RE:** FY 2026-27 Internal Service Fund Charges — Recommended Reduction of \$1,500,000

**Finding.** The proposed ISF reimbursement charged to the General Fund of \$8,571,217 exceeds actual service costs. Under the proposed budget, the ISF is projected to generate a surplus of \$2,679,971, growing its fund balance by over **\$2.68 million** in a single year — from \$8,870,000 to \$11,549,971. This over-recovery is not consistent with the cost-recovery purpose of an Internal Service Fund and unnecessarily burdens the General Fund.

**Analysis & Impact of Proposed \$1,500,000 Reduction**

|  | FY 26-27 Proposed   | Adjustment           | FY 26-27 Revised    |
|--|---------------------|----------------------|---------------------|
| <b>Internal Service Fund — Revenue &amp; Expenditure</b> |                     |                      |                     |
| <b>ISF Reimbursement Charged to General Fund</b>         | <b>\$8,571,217</b>  | <b>(\$1,500,000)</b> | <b>\$7,071,217</b>  |
| All Other ISF Revenues                                   | \$381,141           | —                    | \$381,141           |
| <b>Total ISF Revenues</b>                                | <b>\$8,952,358</b>  | <b>(\$1,500,000)</b> | <b>\$7,452,358</b>  |
| Total ISF Expenditures                                   | \$6,272,387         | —                    | \$6,272,387         |
| <b>Net ISF Surplus</b>                                   | <b>\$2,679,971</b>  | <b>(\$1,500,000)</b> | <b>\$1,179,971</b>  |
| <b>Internal Service Fund Balance</b>                     |                     |                      |                     |
| Beginning Fund Balance (FY 25-26 Est.)                   | \$8,870,000         | —                    | \$8,870,000         |
| Add: Net Surplus   | \$2,679,971         | (\$1,500,000)        | \$1,179,971         |
| <b>Ending Fund Balance</b>                               | <b>\$11,549,971</b> | <b>(\$1,500,000)</b> | <b>\$10,049,971</b> |
| Increase Over Prior Year Balance                         | +\$2,679,971        |                      | +\$1,179,971        |
| <b>General Fund Impact</b>                               |                     |                      |                     |
| ISF Charges in GF Expenditures (Before)                  | \$6,567,141         |                      |                     |
| Reduction in ISF Charges to GF                           |                     | (\$1,500,000)        |                     |
| <b>Revised ISF Charges in GF Expenditures</b>            |                     |                      | <b>\$5,067,141</b>  |
| <b>GF Savings</b>  |                     | <b>\$1,500,000</b>   |                     |

**Recommendation.** Staff should reduce the FY 2026-27 ISF reimbursement charged to the General Fund by **\$1,500,000**. After the adjustment, the ISF still ends the year with a fund balance of \$10,049,971 — a healthy 13.3% increase over the prior year estimated balance — with all budgeted ISF expenditures fully covered. The \$1,500,000 in savings directly reduces the General Fund's structural expenditure pressure. Staff should prepare a budget amendment for Council approval prior to budget adoption.

**TOWN OF LOS GATOS  
FINANCE COMMISSION  
MEMBER MEMORANDUM**

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**DATE:** May 11, 2026  
**TO:** Chris Constantin, Town Manager  
**FROM:** Phil Koen, Finance Commission Member  
**SUBJECT:** Finance Commission Response and Draft Motion — Internal Service Fund Charges, FY 2026-27 Proposed Budget

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**BACKGROUND AND CONCERN**

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The Finance Commission appreciates staff's analysis of the Vehicle and Equipment Replacement Fund and the Facilities Fund. However, the Commission has concerns about the structural logic underlying the recommendation and believes the proposed approach, while arithmetically sound, solves for the wrong problem and risks obscuring the Town's true fiscal picture.

**THE CORE ISSUE**

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Internal Service Fund charges are not external revenue — they are internal billing mechanisms that move General Fund dollars into restricted ISF buckets. When ISF charges consistently exceed actual expenditures, the result is not fiscal prudence — it is the systematic removal of flexible General Fund resources into accounts where they are less visible and less accessible for Council prioritization.

The Vehicle and Equipment Replacement Fund's own ten-year projections confirm this. Ending cash balances average \$4.4 million over the FY 2026 through FY 2036 projection period, against normalized annual charges to departments of \$1,591,333 and average annual expenses of approximately \$1,571,000. This represents a structural overcollection — charges have been set to generate surpluses rather than to match realistic replacement cost schedules.

**THE COMMISSION AGREES WITH THE \$1.5 MILLION REDUCTION**

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The Commission agrees with staff's finding that a reduction of \$1.5 million in Vehicle and Equipment Replacement Fund charges is supportable in FY 2026-27 without creating an unfunded liability. Staff's analysis is credible and the Commission endorses this adjustment. The disagreement is not with the reduction itself — it is with what happens to the resulting savings.

Rather than redirecting \$922,500 of those savings into the Facilities Fund through an internal accounting transfer, the Commission believes the full \$1.5 million reduction should flow directly to the General Fund as a visible surplus. This surplus should be reported transparently to the Town Council as an available resource, allowing the Council to make a deliberate and informed decision about its use — including whether to address Facilities needs through a direct appropriation or transfer.

## **THE FACILITIES PROBLEM IS REAL BUT SEPARATE**

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The Commission recognizes that the Facilities Fund faces a genuine and significant deferred maintenance challenge. Current facility assessments, escalated to 2024 dollars, show annual needs of \$3.4 million in FY 2025-26 and \$3.3 million in FY 2026-27. However, redirecting \$922,500 from reduced Vehicle fund charges into the Facilities Fund does not solve this problem — it partially obscures it. The proposed approach brings the Facilities Fund balance to only \$1.75 million against a \$3.3 million annual assessed need. That gap will not close through ISF reallocation mechanics. It requires a direct and transparent budget commitment.

Critically, the Town Council retains the ability at any time to direct staff to execute a direct transfer from the General Fund to any Internal Service Fund when needs are identified, assessed, and prioritized. This is the appropriate mechanism for addressing ISF underfunding — not artificially inflating annual service charges to make up for past underfunding in ways that obscure the true cost and nature of the problem. Using inflated ISF charges as a substitute for direct appropriations removes the decision from the Council's visible budget process and embeds it in internal billing rates where it receives less scrutiny and less transparency.

## **THE GENERAL FUND SURPLUS SHOULD BE VISIBLE**

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Under staff's current proposal, the net impact to the General Fund from the ISF reallocation is a reduction in expenses of \$579,027, resulting in a stated FY 2026-27 General Fund surplus of \$29,705. On a \$42.3 million operating budget, a surplus of \$29,705 is not a surplus — it is a rounding error that provides no meaningful fiscal cushion and will not survive routine mid-year variances in revenues or expenditures.

Under the Commission's recommended approach, implementing the full \$1.5 million Vehicle ISF charge reduction and retaining all savings in the General Fund would produce a meaningful and visible surplus that the Town Council can evaluate and direct. This is precisely how the budget process should work — Council should see the Town's true fiscal position and make deliberate choices about resource deployment, rather than having those choices made implicitly through internal billing rate adjustments. A visible General Fund surplus also provides the Council with the flexibility to address the Facilities deferred maintenance backlog directly, partially, or in phases, based on a full understanding of the need and the available resources.

## **CONCLUSION**

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The Commission believes the correct approach is to implement the full \$1.5 million ISF charge reduction, allow the resulting General Fund surplus to be visible and reported transparently to the Town Council, and bring the Facilities deferred maintenance need forward as a direct, transparent, and prioritized budget request. The Town Council should make an informed appropriation decision based on the actual assessed need — either through the annual budget process or through a direct mid-year transfer — rather than through inflated ISF billing rates that compound year over year and are difficult to unwind.

This approach produces cleaner financial reporting, preserves General Fund flexibility, forces an honest prioritization of the Facilities deferred maintenance challenge, and avoids the pattern of using

internal accounting mechanics to balance the budget in ways that reduce transparency and limit Council's visibility into the Town's true fiscal position.

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## **DRAFT MOTION**

### *Internal Service Fund Charges — FY 2026-27 Proposed Budget*

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The Finance Commission moves to recommend that the Town Council direct staff to revise the FY 2026-27 budget treatment of Internal Service Fund charges as follows:

#### **1. Vehicle and Equipment Replacement Fund — Implement the Full \$1.5 Million Reduction**

The Commission endorses staff's finding that a \$1.5 million reduction in Vehicle and Equipment Replacement Fund ISF charges is supportable in FY 2026-27 without creating an unfunded liability. Staff's ten-year projection confirms that ending fund balances remain healthy, averaging \$4.4 million through FY 2036, even with reduced contributions. The Commission recommends that this full \$1.5 million reduction be implemented. However, rather than redirecting any portion of those reduced charges to the Facilities Fund through an internal accounting transfer, the Commission recommends that the full \$1.5 million in savings flow directly to the General Fund, producing a visible and reportable General Fund surplus that the Town Council can evaluate and direct. The Commission further recommends that ISF charges for the Vehicle and Equipment Replacement Fund be set going forward to recover actual and projected costs only, and not to generate structural surpluses or to compensate for prior period underspending through inflated future charges.

#### **2. Facilities Fund — Direct Appropriation, Not ISF Reallocation**

Rather than funding the Facilities Fund through a reallocation of reduced Vehicle ISF charges, the Commission recommends that staff prepare and present to the Town Council a standalone analysis of the Facilities deferred maintenance backlog, including the full assessed need in current dollars (assessed at \$3.4 million for FY 2025-26 and \$3.3 million for FY 2026-27), a prioritized list of identified repairs, a recommended multi-year funding strategy, and the annual General Fund appropriation required to address the backlog over a defined and fiscally responsible timeframe. This analysis should be presented as a direct budget request, separate from ISF mechanics, so that the Town Council can make an informed and transparent appropriation decision.

The Commission notes that the Town Council may at any time direct staff to execute a direct transfer from the General Fund to the Facilities Fund or any other Internal Service Fund when needs are clearly identified and prioritized. This direct transfer mechanism is the appropriate and transparent tool for addressing ISF funding gaps — not artificially inflated service charges embedded in departmental billing rates that accumulate quietly and are difficult to reverse.

#### **3. ISF Charge Methodology — Comprehensive Review**

The Commission recommends that staff conduct a comprehensive review of the methodology used to set charges across all Internal Service Funds, with the objective of ensuring that charges are set to recover actual and projected costs rather than to generate structural surpluses or to compensate

for past underfunding through inflated future rates. Where ISFs are genuinely underfunded relative to documented future needs, staff should bring a direct funding recommendation to the Town Council through the budget process or via a specific transfer request, rather than embedding the catch-up cost in annual service charges. This review should be completed as part of the FY 2027-28 budget preparation process and presented to the Finance Commission prior to budget adoption.

The Finance Commission believes these recommendations will produce a more transparent, more accurately reported, and more fiscally resilient budget than the approach currently proposed, and will better serve the Town Council's ability to make informed, visible, and deliberate decisions about the allocation of the Town's resources.

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*Phil Koen, Finance Commission Member — Submitted for Finance Commission Review and Vote — May 11, 2026*  
*All figures sourced from Town of Los Gatos Finance Commission Packet, May 11, 2026 — Items 4, 5, and 6*  
*Attachments*

**From:** Gus Who [REDACTED]  
**Sent:** Wednesday, May 6, 2026 3:51 PM  
**To:** Clerk <Clerk@losgatosca.gov>  
**Subject:** Clerk - for finance commission

[EXTERNAL SENDER]

To whom it may concern,

I like to submit a comment or 2 as .... wanted info by WEDNESDAY... and..

**I'm Trying to follow the numbers to this...**

-(least controversial issue)-

Being charged 6.8% on 4 million dollars a month equals out to be \$22,666

Being charged 6.8% on 3.9 million dollars a month equals  
out to be \$22,100

These numbers represent the town people .. jurisdiction (area) are responsible for cost to loan agreement.

The pension fund (115) that this (so call) 3.9 or 4 million is reportedly making 2% interest.

Which means 3.9 million at 2% interest earns the pension fund \$6,500 a month

On 4 million dollars at 2% interest earns the pension fund  
\$6,666.66 a month.

Monthly the Town people lose between \$22,100 - \$22,666 paying interest...

While the Pension fund (115) earns between \$6,500 to \$6,666.66 for it retirees and not the town people.

This is an ongoing issue.. please let me know if my information is wrong.

Also, would like to know when this issue was first brought up, (off the top of your heads if anyone recalls) as I am kind of new to reviewing this for my own records. I will be trying to back check the audio tapes or emails / texts to verify the truth.

Respectfully submitted

Gus Who

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**Meant for finance commission meeting on cat in a hat budget report only.**

Also .. 100% OT to police.. I already sent in an article to the town around 3/10

LAW ENFORCEMENT

# San Jose to rein in police overtime

By Devan Patel  
DPATEL@BAYAREA  
NEWSGROUP.COM

With police overtime spiking for more than a decade — last year alone the department shelled out \$71.5 million in extra pay — San Jose will now rein in spending through stricter cost controls and the redeployment of some officers.

Last year's overtime, significantly surpassed the police department's adopted overtime budget of \$26.6 million, with total personnel services running \$16.5 million over budget, even after factoring in savings from vacant positions. This year, the department is again on track to blow its personnel services budget by \$10 million to \$14 million.

Under the new plan approved by the City Council on March 10, city officials expect to see a potential \$8 million annual reduction.

"The budget office and police department really dug deep into the data, trying to figure out sort of what is going on and what is the right path forward," budget Director Jim Shannon said. The rise in police overtime costs has coincided with a decline in staffing.

In fiscal 2009, the city budgeted for 1,392 sworn officers, before staffing levels fell to a low of 1,085 in fiscal 2012. While the city's budget now allows for 1,172 positions, the city still has a significant number of vacancies.

Compounding the problem, the number of calls

for service has grown from around 900,000 in 2009 to 1.14 million last year.

The problem has also been on the city's radar for years, with the city auditor releasing a 2021 report documenting staffing challenges and their impact on response times.

The department has begun to lessen the financial blow with stricter controls, including requiring additional sign-offs in its investigation bureau, special operation unit and for community events.

The San Jose Police Officers' Association also approved lowering the compensatory time cap — the time off for working overtime — from 480 to 440 hours. Because compensatory time is paid at the

current rate of pay, officers who have been promoted or retired could receive significantly more pay than they did when they accrued the hours.

The agreement also required that officers with time balances over 200 hours use at least 40 hours per year.

Other significant changes that could help drive down costs are the department's plan to redraw its coverage areas from 16 to 12 districts, which could also cut into response times and provide better service, and its plans to redeploy officers from several units.

For example, the city plans to eliminate its Berryessa BART station. Currently, the city has a \$1.5

million contract with the VTA that expires on June 30. The VTA's contract pays for one sergeant and six officers, while the remaining six officers are paid overtime by the city.

"It's something that actually I've been wanting to get us out of for quite some time," Police Chief Paul Joseph said. "BART has their own police department, so I'm not sure if BART PD is going to take over, or if they're going to seek to subcontract those security services out to perhaps the sheriff's department, which does handle all VTA security in the county. I just don't think, with our limited resources that it's an appropriate deployment for us."

San Jose also plans to

return some officers to patrol that were previously part of the Psychiatric Emergency Response Team and the school liaison, canine, gang investigation, traffic enforcement and metro units, despite some concern from the City Council about the loss of some of those resources.

"I'm going to support what's going forward, but I have to say, I'm disappointed in the traffic enforcement unit, because that's the one department I think that all of us call regularly, or attempt to call regularly, and say, 'Can you come out there?'" Vice Mayor Pam Foley said. "I think that's the part that really helps us, particularly around our schools, to help reduce traffic or reduce speeding."



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of Santa Clara County

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Any connection.. as this town might need to enter a 60-day mediation period with its creditors before seeking bankruptcy protection.