



**TOWN OF LOS GATOS
FINANCE COMMISSION REPORT**

MEETING DATE: 05/11/2026

ITEM NO: 6

DESK ITEM

DATE: May 11, 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 additional commissioner comments and attachment 2 includes staff responses to previously submitted commissioner questions.

Attachments Distributed with the Addendum:

1. Commissioner Comments
2. Public Comments

Attachments Distributed with this Desk Item:

3. Commissioner Comments
4. Staff Response to CIP Questions

PREPARED BY: Kristina Alfaro
Administrative Services Director

Reviewed by: Town Manager and Town Attorney

TOWN OF LOS GATOS — Finance Commission

TO: Chris Constantin, Town Manager; Kristina Alfaro, Administrative Services Director

FROM: Phil Koen, Finance Commission Member

DATE: May 11, 2026

RE: FY 2026-27 Salary Budget: Headcount Justification

DRAFT — NOT REVIEWED BY FINANCE COMMISSION

This memo is offered in support of Draft Motion #2 — Vacancy Savings Factor and Monthly Reporting — and provides the analytical basis for that motion’s recommendation to transition away from the vacancy factor toward a real labor plan built on planned hires, right-sized authorized headcount, and monthly FTE tracking. The salary variance analysis and budget comparisons that follow are intended to give the Town Council and staff a precise understanding of what the proposed FY 2026-27 salary budget is actually authorizing — and why the current budgeting approach requires a fundamental rethink.

The following table summarizes General Fund salary across the three scenarios under discussion. All figures are sourced from the C-26 five-year forecast (in millions) and the C-9 detailed revenue and expenditure table. The

FY 2026-27 proposed salary is shown both gross and net of the 4.6% vacancy savings factor, as these represent two materially different budget signals.

Line Item	FY26 Budget	FY26 Actual	FY27 Gross	FY27 Staff Net	FY27 Econ. Net†	Econ. Net vs. FY26 Act.
Salary	\$25,600,000	\$23,405,209	\$26,200,000	\$24,200,000	\$24,200,000	+\$794,791
Overtime	\$700,000	\$1,384,604	\$1,457,000	\$1,457,000	\$1,457,000	+\$72,396
CalPERS	\$9,900,000	\$8,790,965	\$10,410,788	\$10,410,788	\$9,616,071	+\$825,106
Other Benefits	\$6,300,000	\$5,349,271	\$6,294,481	\$6,294,481	\$5,813,986	+\$464,715
Retiree Med.	\$2,200,000	\$2,173,606	\$2,193,606	\$2,193,606	\$2,193,606	+\$20,000
Vacancy Factor	(\$2,200,000)	—	—	(in sal.)	(in sal.)	—
Total	\$40,298,470	\$41,103,655	\$46,555,875	\$44,555,875	\$43,280,663	+\$2,177,008
% vs. FY26 Act.	—	—	+13.3%	+8.4%	+5.3%	+5.3%

The “Staff Net” column reflects the budget as proposed: gross salary of \$26.2M less the \$2.0M vacancy savings factor = \$24.2M, with CalPERS and all other benefits left at gross budgeted rates. This is the budget the Town Council is being asked to adopt. Total staff net vs. FY26 actual = +\$3,452,220 (+8.4%).

† The “Econ. Adjusted” column reflects what a properly net-adjusted budget would show: CalPERS contributions (39.74% of payroll) applied to net salary of \$24.2M = \$9,616,071. All Other Benefits reduced proportionally to \$5,813,986. Retiree Medical is a fixed OPEB obligation and is unchanged. The proposed budget overstates total

compensation by approximately \$1.28M by not applying the vacancy factor reduction to dependent benefit lines. Total econ. adjusted vs. FY26 actual = +\$2,177,008 (+5.3%).

* FY25-26 estimated actual total of \$41,103,655 is the sum of all five compensation lines from C-9 (including Retiree Medical of \$2,173,606). Note: C-9 and C-47 report Salaries & Benefits at \$38,929,688 and \$38,930,049 respectively, which exclude the separately-reported Retiree Medical / OPEB line. FY25-26 adjusted budget total of \$40,298,470 is from C-47 (excludes Retiree Medical); individual line items are from C-26 (rounded). FY26-27 vacancy savings of \$2.0M applies to salary only.

2. WHAT IS DRIVING THE \$2.8M SALARY INCREASE

The FY 2026-27 salary budget of \$26.2M is \$2.8M — a 12.0% increase — above the FY 2025-26 estimated actual of \$23.4M. Variance analysis shows 87% of the increase is headcount, not wages:

Salary Increase Driver	\$ Amount	%
Headcount volume	+\$2,444,000	87%
COLA + step increases	+\$771,000	28%*
Midpoint offset	(-\$415,000)	—
Total	+\$2,800,000	100%

* COLA and step are contractually obligated and not in question. Percentages sum to more than 100% due to the offset.

3. DERIVING FY 2025-26 ACTUAL FTE COUNT FROM SALARY EXPENDITURE

Because actual headcount data by month is not provided in the budget documents, I derived the FY 2025-26 actual FTE count by working backwards from the estimated actual salary expense of \$23.4M. The calculation proceeds in two steps:

Step	Calculation	Result
1. Budget rate per FTE	$\$25,600,000 \div 163.74 \text{ FTEs}$	$\$156,344 / \text{FTE}$
2. Apply rate to FY26 actual salary	$\$23,400,000 \div \$156,344$	149.67 FTEs
Implied vacancies vs. authorized	163.74 – 149.67	~14.1 FTEs (8.6%)

A note on precision: this derivation assumes the average cost per filled FTE equals the budget rate. In practice, if vacancies were concentrated in higher-paid positions, the true filled FTE count would be slightly lower than 149.67; if concentrated in lower-paid positions, slightly higher. The budget documents confirm that prior years budgeted vacant positions at top step rather than midpoint, which means the budget rate modestly overstates the average filled-position cost — and the true filled FTE count was likely slightly above 149.67, consistent with the 150.85 figure also referenced in my discussions with staff. The defensible range is 149.67–150.85 FTEs. Either way, the ~14-position vacancy conclusion holds.

4. WHAT THE BUDGET IS ACTUALLY PROPOSING

The proposed FY 2026-27 salary budget is a fully-staffed budget. It assumes all 165.30 authorized positions will be filled and applies a 4.6% vacancy factor as an afterthought to reduce the total.

The result is a proposed salary budget that is 12% higher than what the Town actually spent in FY 2025-26 — with no evidence that filling those positions is required to maintain the current level of services.

The only new permanent position in the budget is a Deputy Town Attorney (1.0 FTE, cost-neutral). Every other FTE movement reflects vacancies being assumed filled, temporary workers counted as FTE equivalents, and reclassifications — not expanded service capacity. The Town has operated at approximately 150 FTEs for at least a year. There is no documented service degradation. Yet the budget asks the Council to approve \$2.4 million more in salary spending to get back to a headcount level the Town has never actually sustained.

FTE Category	FY26 Auth.	FY26 Actual	FY27 Budget
Permanent funded positions	153.75	—	154.75
Temp / hourly (FTE equiv.)	~9.00	—	10.55
Total budgeted FTEs	~162.75	—	165.30
Est. actual filled FTEs	—	149.67–150.85	165.30*

* FY27 assumes all authorized positions filled.

5. THE BUDGET SENDS AMBIGUOUS DIRECTION TO STAFF

Beyond the headcount question, the current budget structure creates a fundamental ambiguity in what the Town Council is actually directing staff to do. The proposed budget contains two conflicting signals:

	Signal	Staff Action	Salary Δ	Total Comp. Δ
A	Fully staffed — 165.30 FTEs, no vacancy factor	Fill all vacancies	+\$2.8M (+12%)	+\$5.5M (+13%)
B	Net salary after 4.6% vacancy factor	Manage to net number	+\$795K (+3.4%)	+\$3.5M (+8.4%)

The salary-only comparison understates the full magnitude of this ambiguity. When total compensation — salary, overtime, CalPERS, all other benefits, and retiree medical — is considered, the stakes become much clearer:

Scenario	Total Cost	vs. FY26 Actual	% Chg
FY26 Actual	\$41,103,655	—	—
FY27 Gross — Signal A	\$46,555,875	+\$5,452,220	+13.3%
FY27 Staff Net — Signal B	\$44,555,875	+\$3,452,220	+8.4%

FY27 Econ. Adjusted Net	\$43,280,663	+\$2,177,008	+5.3%
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Even under the most conservative scenario — fully net-adjusted with benefits scaled proportionally — total compensation increases by \$2.2 million or 5.3% over FY 2025-26 actual. Under the gross budget that staff is technically authorized to spend, the increase is \$5.5 million or 13.3%. For a Town where labor is the largest cost category and revenues are growing at approximately 1.7%, a 13.3% increase in total compensation cost is not a rounding error — it is a structural budget problem that demands an explicit answer from the Town Council before adoption.

These are materially different operating instructions. If staff interprets the budget as Signal A and fills all 165.30 positions, total compensation rises \$5.5M above FY26 actual. If staff manages to the net salary number (Signal B), total compensation still rises \$3.5M because CalPERS and benefits are left at gross rates in the budget — a further imprecision that overstates true net cost by \$1.28M. The budget as proposed does not resolve this ambiguity. The Town Council should answer directly: does it want staff to fill all authorized positions, or does it expect vacancies to continue? If the latter — as recent history strongly suggests — then the authorized headcount and the vacancy factor are not a budget; they are a fiction that obscures the Town's real staffing intentions from everyone, including staff.

6. WHY DOES THE TOWN BUDGET THIS WAY — AND IS THERE A BETTER APPROACH?

The vacancy factor exists because the Town has consistently authorized more positions than it actually fills. Rather than address that gap directly, the budget applies a percentage reduction to salary costs as a corrective offset. The Finance Commission's Draft Motion #2 on vacancy savings describes this plainly: the vacancy factor was a stop-gap measure adopted when there was limited visibility into actual FTE deployment. It allowed expected under-runs to be redeployed for other Town needs. The problem is that it leaves planned and actual headcount unreconciled until after year-end — often producing a significant and largely unmanaged surplus.

This raises a more fundamental question: why does the Town continue to budget on a fully-staffed basis when it has never achieved full staffing? The vacancy factor is not a solution — it is an acknowledgment that the authorized headcount is not real. It masks the true cost of Town services, obscures the actual relationship between headcount and service delivery, and makes it impossible to know whether the Town is appropriately staffed or simply understaffed by design.

Labor costs are the Town's largest operating expense and are expected to grow faster than revenues.

Continuing to manage them through an opaque budgeting offset rather than a disciplined headcount plan is not a sustainable approach.

7. A BETTER APPROACH

The Finance Commission's Draft Motion #2 proposes the right framework. The goal should be to close the gap between authorized and actual headcount permanently — not by filling vacancies, but by determining the headcount genuinely required to deliver the Town's current service level and making that the budget baseline.

The Town Council should direct staff to:

- Review every open and authorized position and make a deliberate determination as to whether each should be actively recruited, placed on hold, or eliminated. A position that has remained unfilled for an extended period with no documented service impact should not automatically be budgeted as filled.
- Give particular attention to unfilled sworn police officer positions. The budget already includes \$1,457,000 in overtime — significantly above the adjusted budget of \$700,000. The Town's overtime analysis (Attachment 1) confirms that the Police Department has consistently accounted for 94–97% of all Town overtime costs across the last four fiscal years (93.8% in FY 2024-25; 94.9% in FY 2025-26 partial year). Furthermore, overtime explicitly coded as POA Vacancy OT — overtime directly attributable to sworn officer vacancies — represented \$515,409 or 41.8% of all police overtime in FY 2024-25, though this category has been declining as a share of police overtime in more recent periods. To the extent overtime is being used to cover sworn officer

vacancies, the true cost is already reflected in the overtime line. Filling those positions would increase salary costs while overtime should decrease proportionally. The net impact and the appropriate staffing level for the Police Department should be explicitly evaluated before those positions are assumed filled in the budget.

- Build the FY 2026-27 salary budget — and all future budgets — on a real labor plan: planned hires by position, tracked monthly by FTE, with direct salary, pension and benefits, and overtime reported as separate line items. This gives the Town Council real-time visibility into the largest cost category in the operating budget.
- Transition away from the vacancy factor as monthly FTE tracking is implemented. Unexpected vacancies will still occur but will appear as identified monthly variances — visible, manageable, and actionable — rather than an undifferentiated year-end surplus.

Once authorized and actual headcount are tightly aligned, the vacancy factor becomes unnecessary and should be retired. A budget built on a realistic labor plan — rather than an inflated authorized count offset by an arbitrary factor — is more transparent, more accurate, and gives the Town Council and the public a true picture of what it costs to deliver Town services.

I look forward to a productive discussion with the Town Council and staff at the May 19 Budget Study Session.

*Phil Koen, Finance Commission Member — May 11, 2026 — Item 6:
Proposed FY 2026-27 Operating and Capital Budget.*

**TOWN OF LOS GATOS
FINANCE COMMISSION
MEMORANDUM**

TO: Finance Commission Members; Town Council, Town of Los Gatos
FROM: Phil Koen, Finance Commission Member
RE: Support for Draft Motion #1 — Section 115 Pension Trust Deployment
DATE: May 11, 2026

PURPOSE

I am writing in support of Draft Motion #1 and urge the Finance Commission and Town Council to direct staff to deploy the full balance of the Section 115 Pension Trust — projected at \$4.015 million as of June 30, 2026 — as a targeted Additional Discretionary Payment (ADP) to CalPERS. This memo sets out my specific recommendations on targeting, allocation, and treatment of the resulting contribution savings, drawing directly on the Foster & Foster independent actuarial report dated April 22, 2026.

THE FUNDAMENTAL PROBLEM

The Town's pension plans hold insufficient assets to meet accrued pension obligations. This is not a question of whether additional assets must flow to CalPERS — they must, and that obligation is fixed. The only question is timing and vehicle.

CalPERS permits a time-phased repayment of the unfunded accrued liability (UAL) through an amortization scheme, but charges 6.8% per year for that privilege. The annual UAL payment — currently \$3.29M for Miscellaneous and \$3.40M for Safety — is the annual cost of using that time-phased approach.

The Section 115 Trust holds \$4.015M set aside specifically for pension obligations. It is currently invested in a conservative 21% equity / 79% fixed income CEPPT Strategy 2 allocation that has earned approximately 2.4% since inception — well below even Foster & Foster's conservative 5.0% projection assumption. The result is a net negative carry of approximately 4.4%, costing the Town roughly \$176,000 per year in avoidable economic loss.

The Town simultaneously holds \$15.4 million in combined General Fund budget fluctuation and catastrophic reserves. Staff acknowledges the financial case for deployment is sound. The only reason offered for not acting is operational flexibility. I do not believe that flexibility argument is defensible at a cost of \$176,000 per year when \$15.4M in reserves already serves that purpose.

The Foster & Foster report frames the choice directly:

Supplemental 115 Trust	CalPERS Direct ADP
Flexible	Locked In
~2.4% actual return since inception	6.8% effective return (UAL cost avoided)
Likely lower long-term return	Likely higher long-term return
Does not reduce net pension liability (GASB)	Reduces net pension liability (GASB)
More visible / flexible	More restricted

The Trust is earning 2.4%. CalPERS is charging 6.8%. The Town is paying \$176,000 per year for the privilege of holding money in the wrong place. I believe we should stop.

MY RECOMMENDATION: CONCENTRATE THE FULL ADP ON THE SAFETY PLAN'S LONGEST BASES

The Foster & Foster prefunding analysis defaults to splitting the \$4.015M proportionally between Miscellaneous (\$1.778M) and Safety (\$2.237M) based on UAL share. I do not believe this is the right approach. Draft Motion #1 explicitly rejects mechanical pro-rata allocation and calls for targeting where the payment produces the greatest fiscal benefit. The data supports concentrating the full \$4.015M on the Safety plan's longest amortization bases — specifically the 2016 Asset Loss, 2017 Non-Asset Loss, and 2018 Non-Asset Loss bases, carrying remaining terms of 22, 24, and 23 years respectively.

My reasons are as follows, all grounded in the Foster & Foster report:

The Safety Plan Is More Deeply Underfunded

The Safety plan is projected at only 75.0% funded as of June 30, 2025, compared to 82.4% for Miscellaneous. The Safety UAL of \$31.3M is larger in absolute terms and represents a deeper proportional deficit. The more underfunded plan warrants priority attention.

Retiree Liability Concentration Creates Structural Vulnerability

Foster & Foster reports that 75% of Safety liability belongs to retirees, compared to 64% for Miscellaneous and state averages of 64% and 61% respectively. A plan dominated by retiree liability cannot grow its way out of underfunding — the active workforce is simply too small relative to the obligation. This structural reality makes early UAL reduction more important, not less.

Safety's Longest Bases Produce Superior Interest Savings Per Dollar

This is the core financial argument. Targeting Safety's longest bases with \$2.237M produces estimated interest savings of \$2.030 million — approximately \$0.91 of interest savings per dollar

deployed. The Miscellaneous longest-base ratio is \$0.74 per dollar. Safety produces 23% more interest savings per dollar than Miscellaneous.

The Foster & Foster savings analysis under the standard split allocation is as follows:

Plan / Base	ADP Amount	Interest Savings	PV Savings @3%	2026/27 Contribution Impact
Miscellaneous — Longest Base (2013 Loss, 19 yrs remaining)	\$1.778M	\$1.315M	\$602K	\$(144K)
Safety — Longest Bases (2016/17/18 Loss, 22–24 yrs remaining)	\$2.237M	\$2.030M	\$902K	\$(160K)
TOTAL (Split Allocation)	\$4.015M	\$3.345M	\$1.504M	\$(304K)

I am asking staff to model the scenario where the full \$4.015M is concentrated entirely on Safety's longest loss bases, rather than split. Based on the \$0.91 per dollar savings ratio for Safety, concentrating the full balance is expected to generate approximately \$3.65M in total interest savings — a present value return of approximately \$1.5M or more at 3%.

The Safety Contribution Rate Trajectory Is the Greater Budget Risk

The Safety employer contribution rate is already 72.5% of payroll in FY2025/26, rising to 74.7% in FY2026/27. Foster & Foster's 75th percentile scenario shows this rate approaching 80% of payroll by the early 2030s. Miscellaneous at 33.3% of payroll is significant, but Safety is the plan that poses the greater risk to the Town's ability to balance its budget over the next decade. Every dollar of UAL reduction in Safety reduces the Town's exposure on its most stressed contribution line.

Longer Bases Generate More Compounding Benefit

The Safety amortization payment is equivalent to 17.1 years on a level dollar basis, compared to 13.5 years for Miscellaneous. Longer remaining bases mean more years of compounding interest to eliminate. The earlier the payment, the greater the avoided interest. This is why targeting the longest bases — not the shortest — maximizes total value returned.

THE MONEY-ON-MONEY RETURN: WHY THIS DECISION IS STRAIGHTFORWARD

I want to put the return on this investment in plain terms, because I believe the numbers make the decision self-evident.

Deploying \$2.237M to Safety's longest bases generates \$2.030M in total interest savings over the life of those bases. That is \$0.91 returned for every \$1.00 invested, for a total money-on-

money return of 1.91x on that portion alone — getting the investment back plus nearly the full amount again in avoided costs.

Applying that same ratio to the full \$4.015M concentrated on Safety's longest bases, the comparison against leaving the money in the 115 Trust is as follows:

Scenario	ADP Deployed	Total Value Generated	Money-on-Money Return
Stay in 115 Trust @ 2.4% (22–24 yrs)	\$4.015M	~\$6.6M	1.64x
Split ADP — longest bases, both plans	\$4.015M	~\$7.36M	1.83x
Full ADP — Safety longest bases only (recommended)	\$4.015M	~\$7.66M	1.91x
Advantage of recommended vs. staying in Trust	—	~\$1.06M additional value	at guaranteed 6.8%

The recommended approach generates approximately **\$1.06 million more in total value** than leaving the money in the Trust — and the 6.8% return is **guaranteed**, not subject to market risk. The Trust's 2.4% is what it has actually earned; there is no guarantee it will improve. This is not a close call.

For context: the Trust has been earning 2.4% while we pay 6.8% on the same underlying obligation. Every day we delay is a day we are voluntarily accepting a 4.4% loss on \$4 million. At \$176,000 per year, the cost of inaction is real, recurring, and entirely avoidable.

POLICY RECOMMENDATION: CAPTURE THE CONTRIBUTION SAVINGS

Foster & Foster recommends maintaining current payment schedules after an ADP to maximize long-term present value savings. That is mathematically correct in isolation, and I respect the actuarial reasoning.

However, I recommend that the Town **capture the annual contribution reduction** resulting from the ADP rather than maintaining payments at the pre-ADP level. This is a deliberate policy choice, and I believe it is the right one for the following reasons:

- **Budget pressure is immediate and real.** Labor costs — including pension contributions — are the Town's largest expense category and are projected to grow faster than revenues. Reducing required UAL payments directly relieves pressure on producing a balanced budget. That relief has concrete value.
- **The 115 Trust was created to manage pension cost volatility.** Capturing the contribution reduction is precisely consistent with that purpose. The ADP reduces the liability; the contribution savings reduce the annual budget burden. Both outcomes serve the intent for which the Trust was established.

- **The primary economic benefit of the ADP is captured regardless.** The 1.91x money-on-money return and the elimination of the 4.4% negative carry are realized whether or not the Town maintains its payment schedule. Accepting the contribution reduction modestly reduces incremental long-term optimization but does not undermine the core financial case for the ADP.
- **The reserve position supports this trade-off.** With \$15.4M in General Fund reserves, the Town can accept somewhat lower long-term savings in exchange for near-term budget relief without compromising fiscal resilience. A strong reserve position is designed to enable exactly this kind of policy flexibility.

I am asking staff to present the implementation analysis with the contribution reduction scenario as the baseline, alongside a quantified side-by-side comparison of the long-term savings available under the maintain-payments alternative, so the Council can make a fully informed final determination.

WHAT I AM ASKING STAFF TO PROVIDE

Before or concurrent with the Council action authorizing the ADP, I am asking staff to return with an implementation analysis that addresses the following:

- **Targeting confirmation.** Confirmation from the Town's actuary and CalPERS that the full \$4.015M can be directed to Safety's longest loss bases (2016, 2017, 2018), with precise interest savings and contribution impact under that full-concentration scenario. If this is not permissible or produces an inferior result, staff should present the next-best targeted allocation with supporting analysis.
- **Contribution reduction quantification.** The specific annual dollar reduction in required Safety UAL payments, the year it takes effect, and projected budget impact for FY2026/27 and forward years.
- **NPV comparison — both scenarios.** A side-by-side present value comparison of: (a) capturing the contribution reduction as I recommend, and (b) maintaining payments at the pre-ADP schedule. The dollar difference between the two scenarios should be explicitly stated.
- **Negative carry documentation.** An explicit statement of the annual economic cost of the current position — 2.4% Trust return against 6.8% UAL cost — and the total cost accrued from the date this analysis was first available to the date the ADP is executed.
- **Reserve adequacy confirmation.** Confirmation that deployment of the full Trust balance does not impair the Town's operating reserves or adopted reserve policy thresholds, with reference to the current combined General Fund reserve balance of approximately \$15.4M.
- **Irrevocability acknowledgment.** A clear statement that the ADP is irrevocable, that extra payments cannot be used as future credit, and that PEPRAs prevents contributions from dropping below normal cost — ensuring the Council acts with full understanding of the permanent nature of this decision.

CONCLUSION

The financial case for immediate deployment of the Section 115 Trust balance is, in my view, unambiguous. The Town is paying 6.8% on its UAL while earning 2.4% in the Trust. The negative carry costs \$176,000 per year. The Town holds \$15.4M in reserves that already serve the flexibility purpose for which the Trust is being retained. The Foster & Foster report identifies a 1.91x money-on-money return from deploying the full balance to Safety's longest loss bases — generating approximately \$1.06 million more in total value than the current course of inaction, at a guaranteed rate.

My recommendations reflect a deliberate policy balance: concentrate the full ADP on the Safety plan's longest bases to maximize the structural benefit of UAL reduction, and capture the resulting contribution savings to provide near-term relief on the Town's most pressured budget line.

I urge my fellow commissioners and the Town Council to support Draft Motion #1 and direct staff to act in **June 2026**.

Phil Koen

Finance Commission Member, Town of Los Gatos

May 11, 2026

**Finance Commission May 11, 2026
PPW Response to Commissioner Questions**

Project 8101 – Street Repair and Resurfacing (first comment series)

Q1. **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?

Response: There is no spending drop. On May 5, 2026 Town Council approved \$819,000 in expenses, and on May 19, 2026 Council will be asked to approve \$2.24 million in contracts. The paving project is challenging due to the timing of construction – monies are not encumbered until very late in the fiscal year and are not spent until the following fiscal year.

PPW has been receiving lower than expected engineer’s estimates for the last two fiscal years. This is in part due to the current market conditions and in part due to the fact that in 2025, the Town began using a new bid software that provides a wider distribution of project bids which results in lower prices.

The 2025-26 street list is presented here:

Street	Begin Location	End Location
Albert Ct	Albert Dr	End
Albert Dr	Nino Av	Calhill Ct
Alberto Wy	Hwy 9	End
Almond Blossom Ln	Harwood Rd	City Limits
Bird Av	Woodland Av	Chester St
Brooklyn Av	Pleasant	Chicago Ave
Calhill Ct	Albert Dr	End
Chester St	Woodland Av	University Av
Church St	High School Ct	E Main St
Clifton Av	Broadway	End
Cooper Ct	University Av	End
Fisher Av	Roberts Rd	Nino Av
Forrest Av	Roberts Av	Oak Meadow Dr
High School Ct	E Main St	Church St
Lundy Ln	W Main St	End
New York Av	Pleasant St	End (Nw)
Nino Av	Los Gatos Bl	Nino Wy
Nino Wy	Nino Av	End
Ohlone Ct	Roberts Rd	End
Park Av	W. Main St	End

Street	Begin Location	End Location
Roberts Rd East	Blossom Hill Rd	Los Gatos Bl
Terrace Ct	Pleasant	End
Woodland Av	Chester St	Wraight Av
Wraight Av	Chester St	Hwy 9

Q2. **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?

Response: A large portion of the carryforward amount shown in the current proposed budget will be utilized for the 2026 Annual Paving Project which is going to Town Council on May 19. Remaining funds will be utilized to fund a larger future CIP paving project to reconstruct Santa Cruz Avenue between Highway 9 and Blossom Hill Road. Design of this project is proposed in the FY 2026-27 CIP Budget.

Q3. **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?

Response: According to our 2025 Pavement Management Report, with current annual pavement funding levels, the overall network PCI decreases by two points, to 80, through 2029. The deferred maintenance backlog is projected to increase, from \$13.4 million in 2025, to \$17.4 million in 2029.

Q4. **Budget Adequacy:** Does the declining annual appropriation of \$2.87M realistically reflect current construction costs per lane-mile, or is the program structurally underfunded?

Response: The program is underfunded if the Town's desire is to maintain the PCI at its current level of 82. Based on the 2025 Pavement Management Report, to maintain the current PCI of 82, \$5.2M is needed annually for the paving program. At that funding level, the deferred maintenance backlog decreases slightly, from \$12.0 million in 2025, to \$11.5 million by 2029. Staff discussed this topic with the Complete Streets and Transportation Commission at their November and December 2025 meetings. CSTC recommended maintaining funding at historic levels and lowering the PCI goal to 80. That recommendation has been shared with the Town Council.

Project 8101 – Street Repair and Resurfacing (second comment series)

Q5. **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?

Response: Please see the response to question 1, above.

- Q6. **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?

Response: Funding identified as GFAR is not general fund tax revenue. The GFAR funding in this project includes other dedicated sources. For example, the Construction Impact Fee assessed by the Town on construction projects is one source of this funding. Another source is a Refuse Vehicle Impact Fee that has historically been paid by the Town's waste hauler to mitigate impacts of heavy vehicles on the Town's roadways. Despite being labeled as GFAR, these funds are not available for other uses.

- Q7. **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?

Response: The Town is facing the need to complete paving on Santa Cruz Avenue from East Main Street to Blossom Hill Road. This will be a complicated and costly project due to the presence of parklets and the need for upgrades to storm drainage infrastructure. The proposed FY 2026-27 CIP includes funding for the design of the portion of road from Highway 9 to Blossom Hill Road.

- Q8. **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?

Response: For the next few fiscal years the funding gap can be accommodated. The condition of Town roads will deteriorate during this time and the PCI will continue to fall.

Project 8510 – Highway 17 Overcrossing

- Q1. **Contract Encumbrance:** Is the \$3.29M carryforward fully encumbered under existing contracts with BKF Engineers, or is a portion discretionary and available for deferral?

Response: The carryforward is not fully encumbered but it does include \$2,468,786 in grant funding that is dedicated for construction, and \$650,419 in existing encumbrances. This suggests the project has \$170,795 of discretionary funding.

Staff continues to recommend that this funding be retained in the project at least until the project plans are shovel ready.

- Q2. **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?

Response: The Town's application scored just below the cut off for funding through the 2025 SS4A program and no funding was awarded.

- Q3. **Fallback Plan:** If SS4A is not awarded, what is the revised construction funding timeline and does the project remain viable on the current schedule?

Response: The current funding gap for construction and construction phase engineering, administration and inspection is \$19,953,925 for 2028 construction. Staff is proposing applications to two grant programs for this full amount – One Bay Area Grant Cycle 4 and Active Transportation Grant Cycle 8. Staff will be seeking for Town Council to authorize the Town Manager to submit applications to these two programs in June and July 2026.

- Q4. **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?

Response: Design will be complete in early 2027. If construction funding has not been secured by that time staff will recommend holding the shovel ready plans while construction funding is sought.