

From: [Phil Koen](#)
To: [Gitta Ungvari](#)
Cc: [Laurel Prevetti](#); [Wendy Wood](#)
Subject: Agenda item 7
Date: Tuesday, February 6, 2024 10:15:28 AM
Attachments: [Staff_Report.FINAL.pdf](#)
[Pages from Pages from AgendaPacket-Council Meeting-August 6, 2019 7.00 PM\(1\).pdf](#)
[Pages from FY-2023-24-Operating-Budget \(2\)\(16\).pdf](#)
[Attachment 5 - Godbe Research Survey 2016.pdf](#)
[NBS Report December 14 2023.pdf](#)
[Staff memo - Revenue Modeling NBS and ballot measure - December 11 2023.pdf](#)
[Pages from FY-2023 ACFR.pdf](#)

[EXTERNAL SENDER]

Gitta,

Please include these attachments as background materials for agenda item 7 for the Feb FC meeting. Please let me know if you have any questions.

Thank you,

Phil Koen



GODBE RESEARCH
Gain Insight



Town of Los Gatos: Community Priorities Survey Presentation to the Ad Hoc Citizens Committee

May 2016



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Town of Los Gatos: Community Priorities Survey Presentation to the Ad Hoc Citizens Committee

May 2016

- Overview – Catherine Lew (Lew Edwards Group)
- Highlights of Results – Bryan Godbe (Godbe Research)
- Next Steps – Catherine Lew and Ross Miletich (Lew Edwards Group)
- Questions/Answers - All

Key Findings



GODBE RESEARCH
Gain Insight

- A general purpose half-cent sales tax with a 25 year sunset for a November 2016 ballot is viable.
- A User Utility Tax for the November 2016 ballot is NOT viable.
- Residents' strongest priorities are repairing roads, improving traffic flow, maintaining 9-1-1 response times, and repairing aging storm drains.
- It will be important for the Town to conduct informational outreach programs to build on the Ad Hoc Committee's efforts, should the Town wish to proceed with a November 2016 ballot measure

Overview and Research Objectives



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The Town of Los Gatos commissioned Godbe Research to conduct a survey of local voters with the following research objectives:

- Gauge the residents' interest in creating a dedicated revenue source for the Town;
- Assess potential voter support for a general sales tax measure to maintain the quality of life and small town character with funding that cannot be taken by the State;
- Identify respondent service and facility priorities;
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- Identify the rate and duration at which voters will support the measure;
- Test support for an alternative UUT measure;
- Gauge the public's perceptions of whether the Town is doing a good job providing services and managing public funds.

Methodology Overview



GODBE RESEARCH
Gain Insight

- Data Collection Telephone and Internet Interviewing
- Universe 15,429 likely November 2016 voters in the Town of Los Gatos
- Fielding Dates April 30 through May 8, 2016
- Interview Length 20.5 minutes
- Sample Size 471 (Online, n=279; Phone, n=192)
- Margin of Error $\pm 4.45\%$



GODBE RESEARCH
Gain Insight

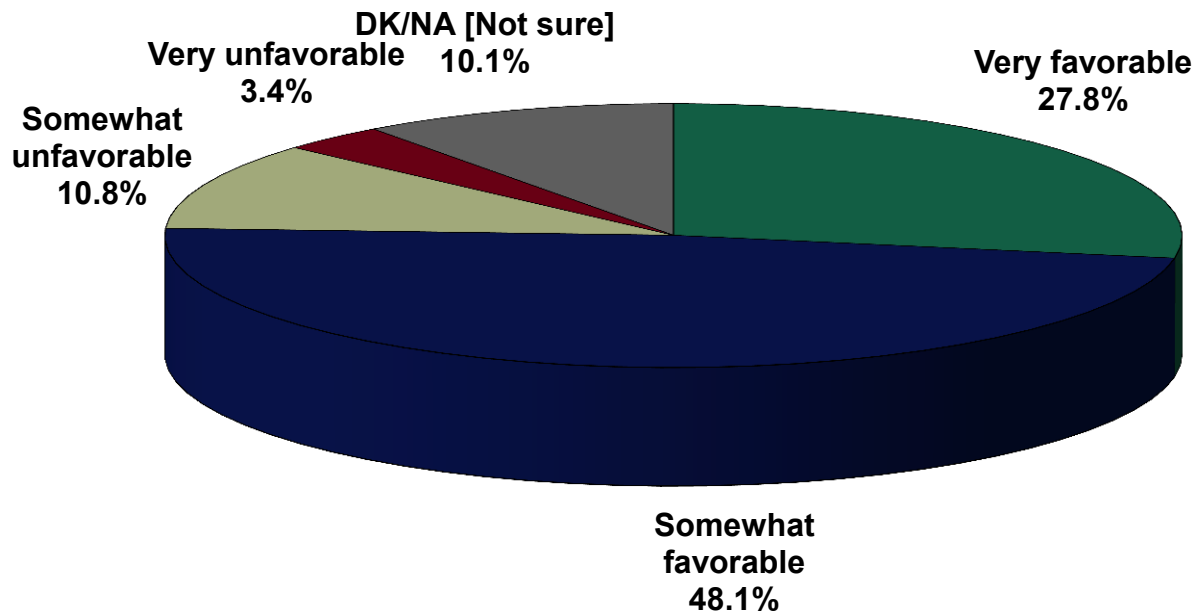


Key Findings

Opinion on Job the Town is Doing to Provide Services (n=471)



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Gain Insight

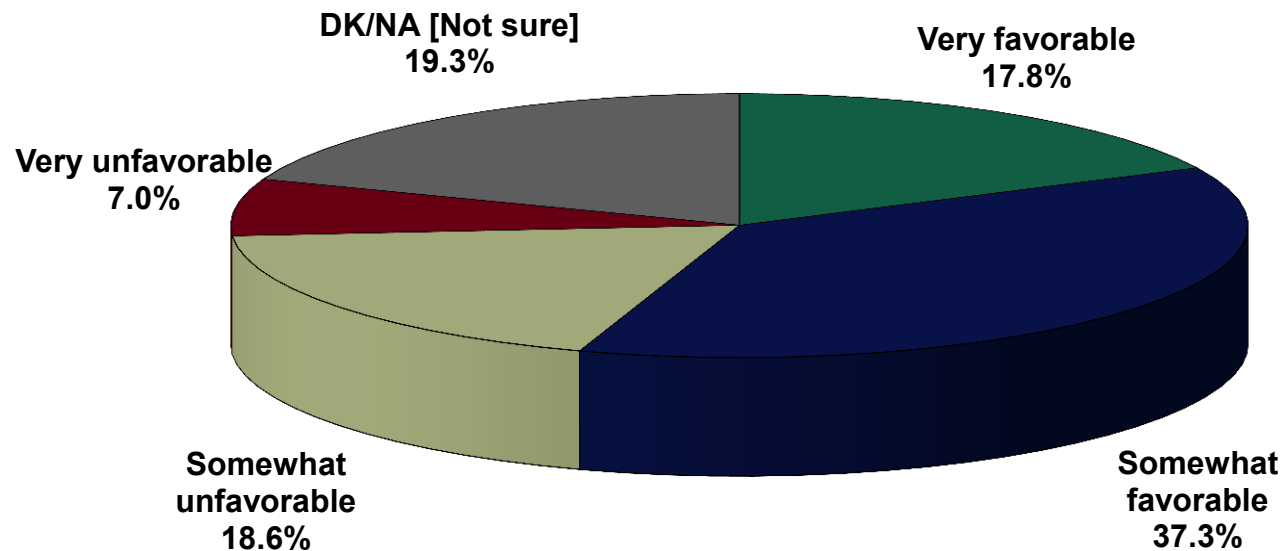


Total Fav = 75.8%
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Opinion on Job the Town is Doing to Effectively Manage Taxpayer Dollars (n=471)



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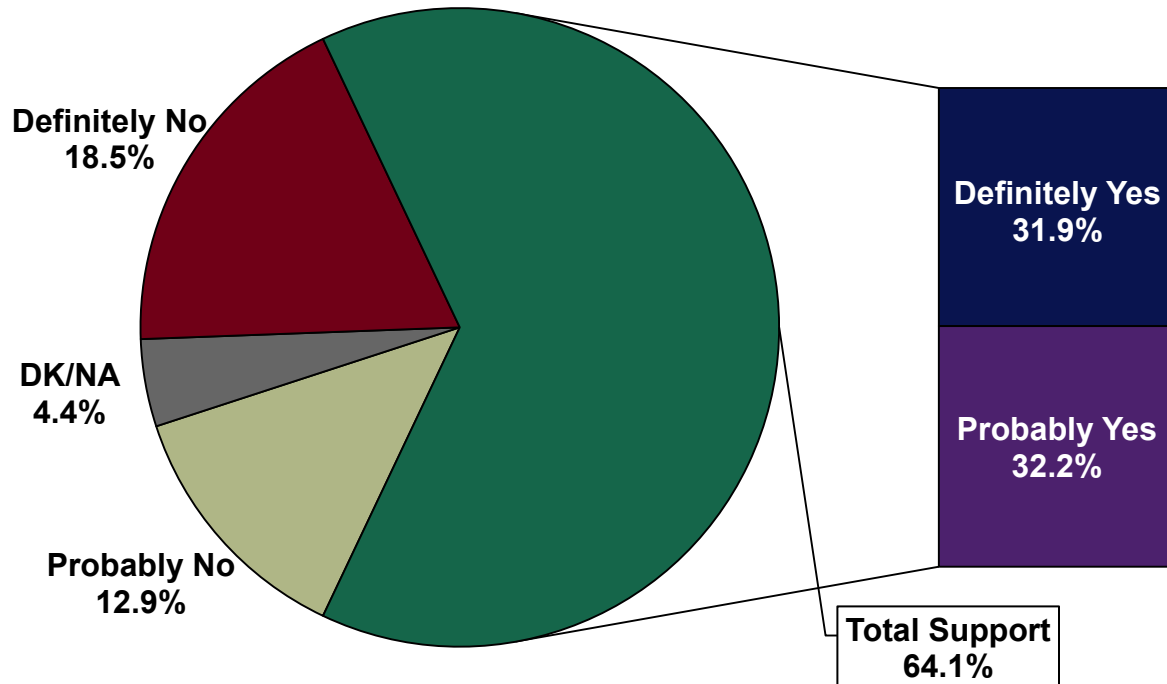


Total Fav= 55.1%
Total Unfav= 25.6%
Ratio Fav to Unfav = 2.2

Uninformed Support for a Conceptual ½¢ Sales Tax (n=471)



GODBE RESEARCH
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To maintain the quality of life and small town character in the Town of Los Gatos by:

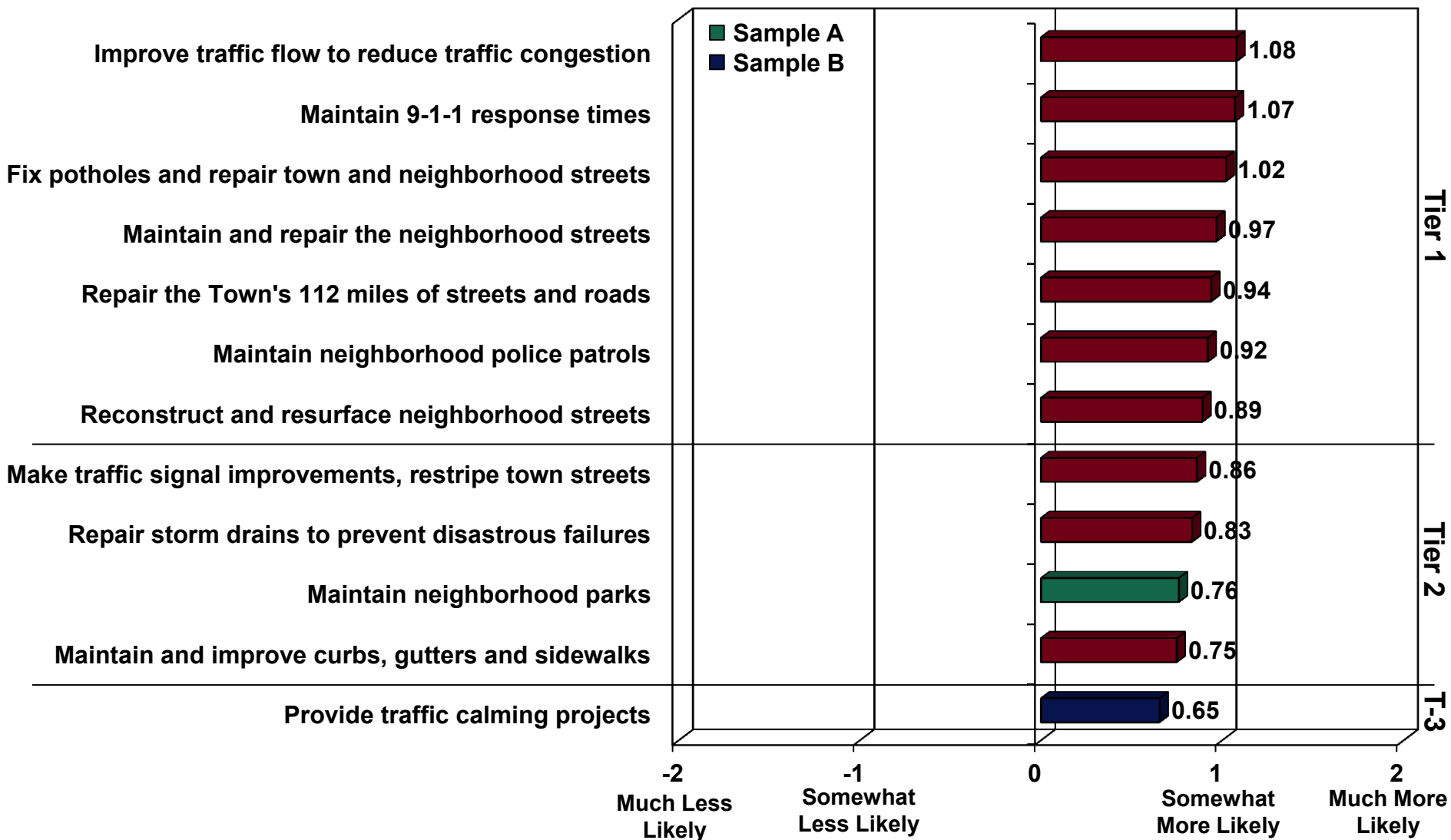
- fixing potholes, sidewalks and repairing neighborhood and major town streets;
- upgrading town parks, playground equipment and restrooms;
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- beautifying downtown,
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- other essential town facilities and services;

shall the Town of Los Gatos enact an one-half cent sales tax, providing \$4 million dollars annually, for 25 years, with annual audits, independent citizens' oversight, and all funds spent locally?

Community Priorities (n=471)



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Gain Insight

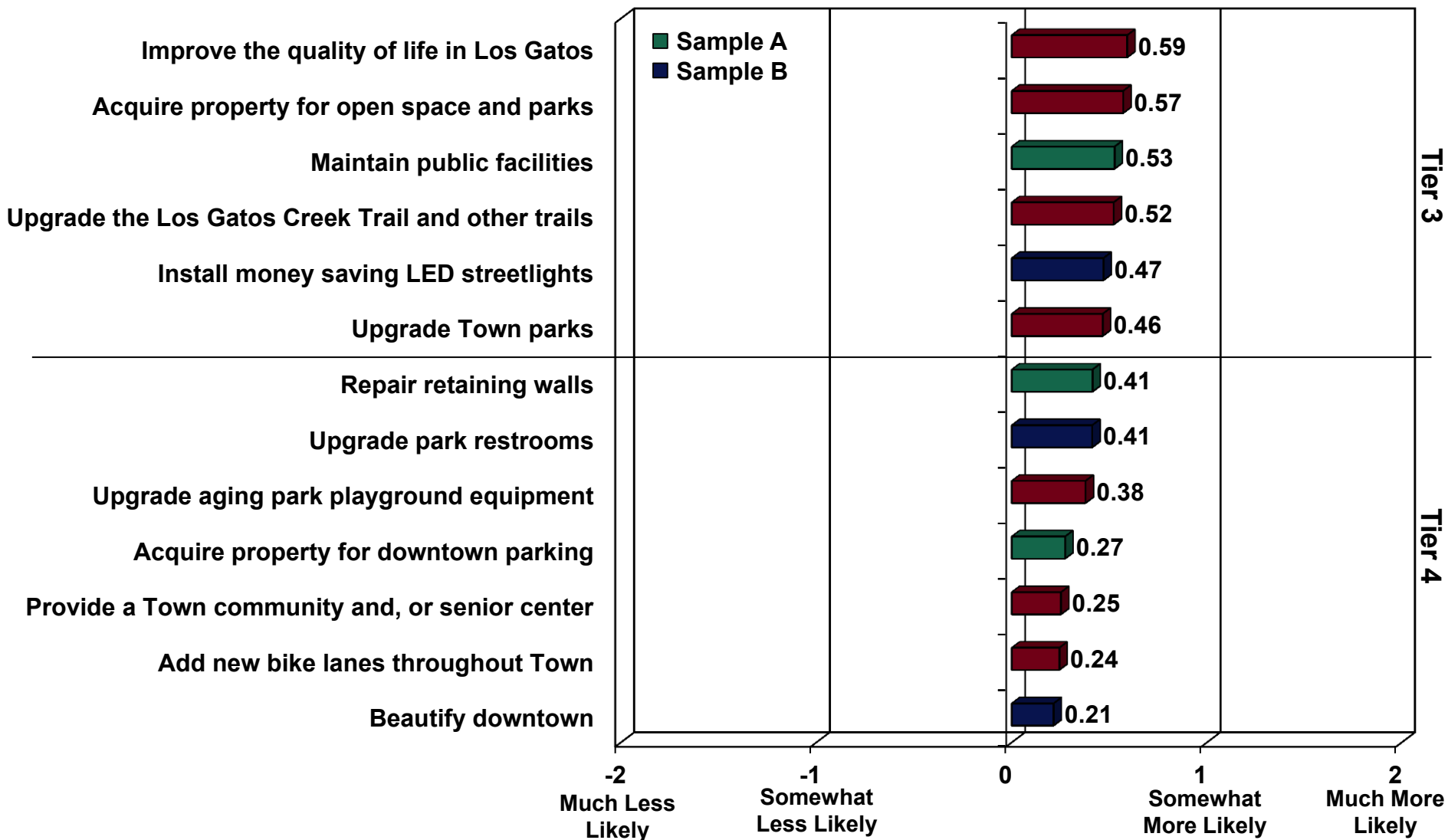


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Community Priorities (Cont.) (n=471)



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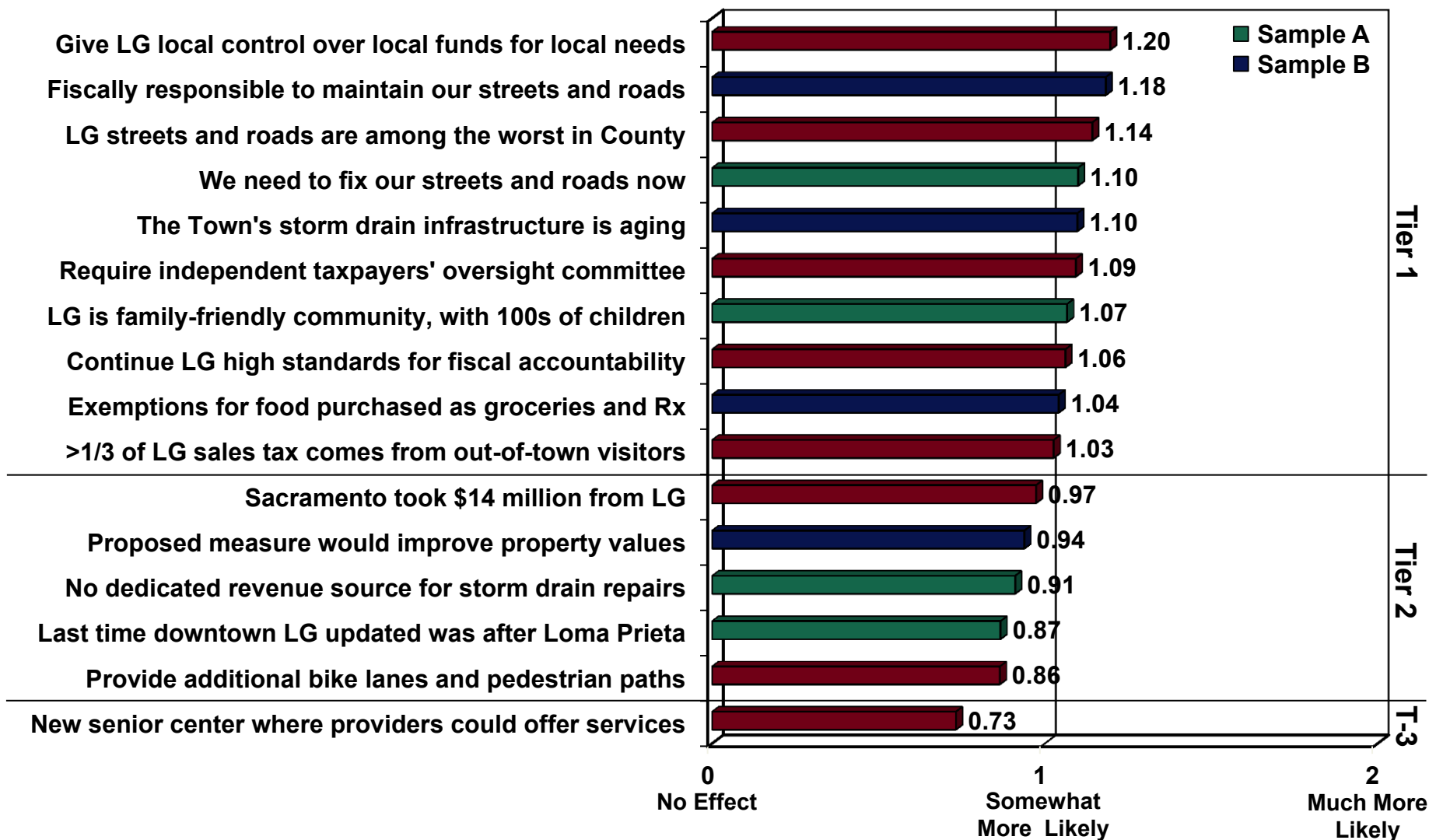


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Information of Interest to Respondents (n=471)



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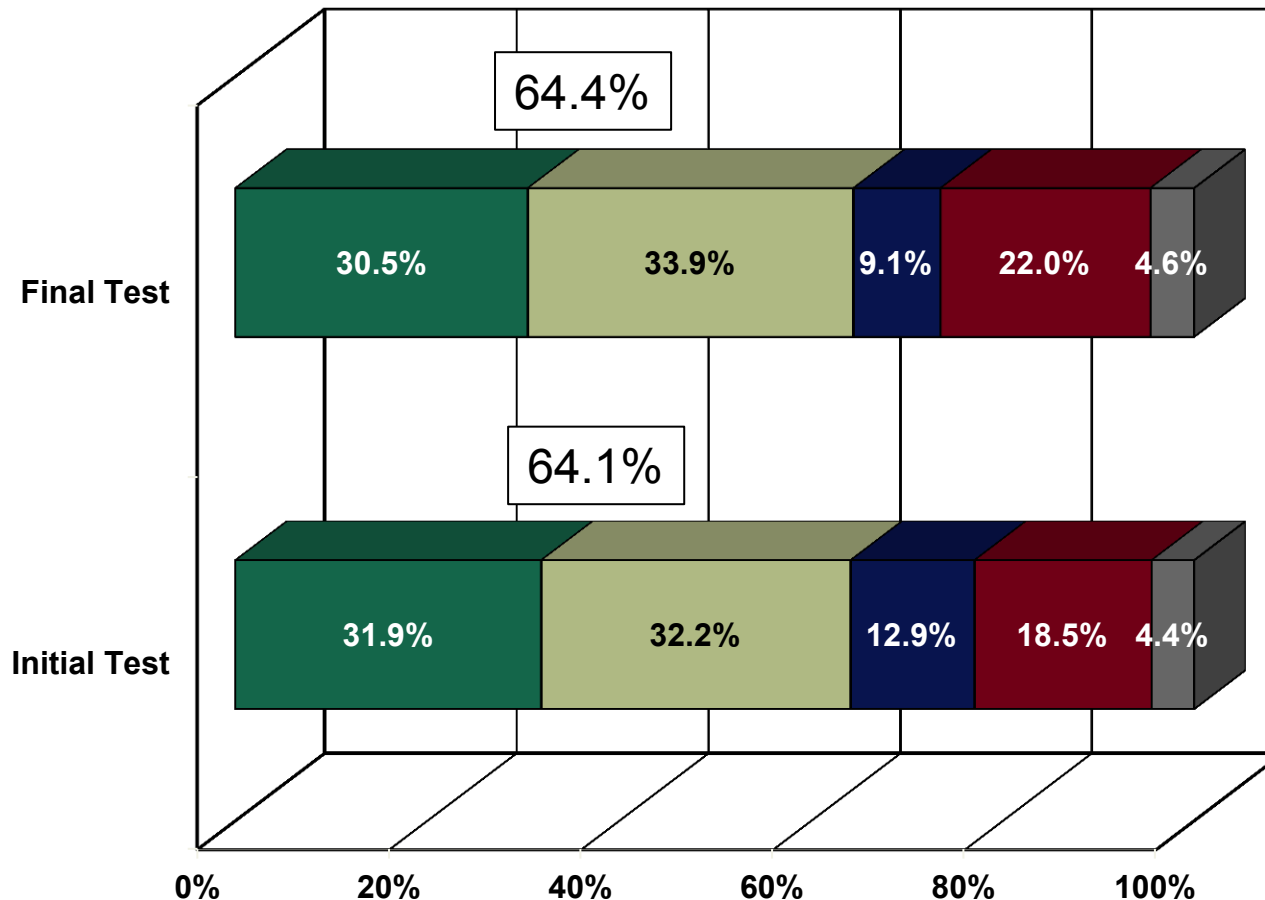


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Informed Support for a Conceptual Sales Tax (n=471)



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■ Definitely Yes ■ Probably Yes ■ Probably No ■ Definitely No ■ DK/NA [Not sure]

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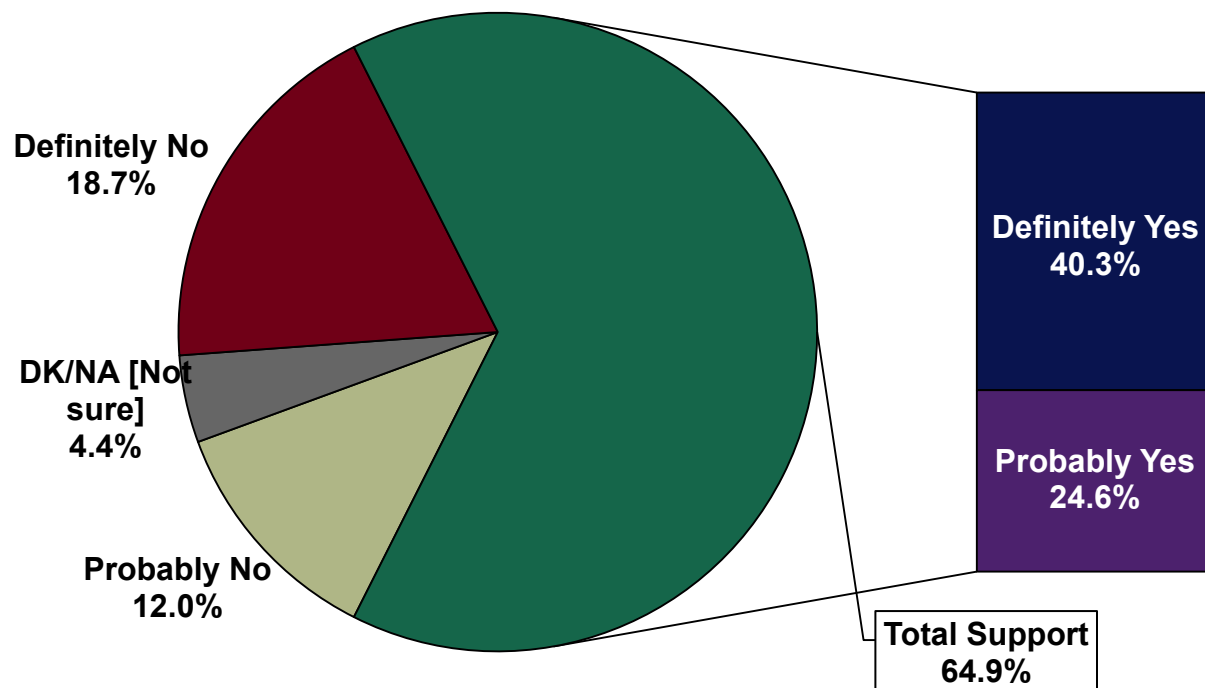
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Support for Alternative ¼¢ Sales Tax

Split Sample C (n=232)



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The rate of the measure to fix potholes, sidewalks and repair neighborhood and major town streets; upgrade town parks, playground equipment and restrooms; upgrade walking, hiking and bike trails; and other essential town facilities and services has yet to be decided.

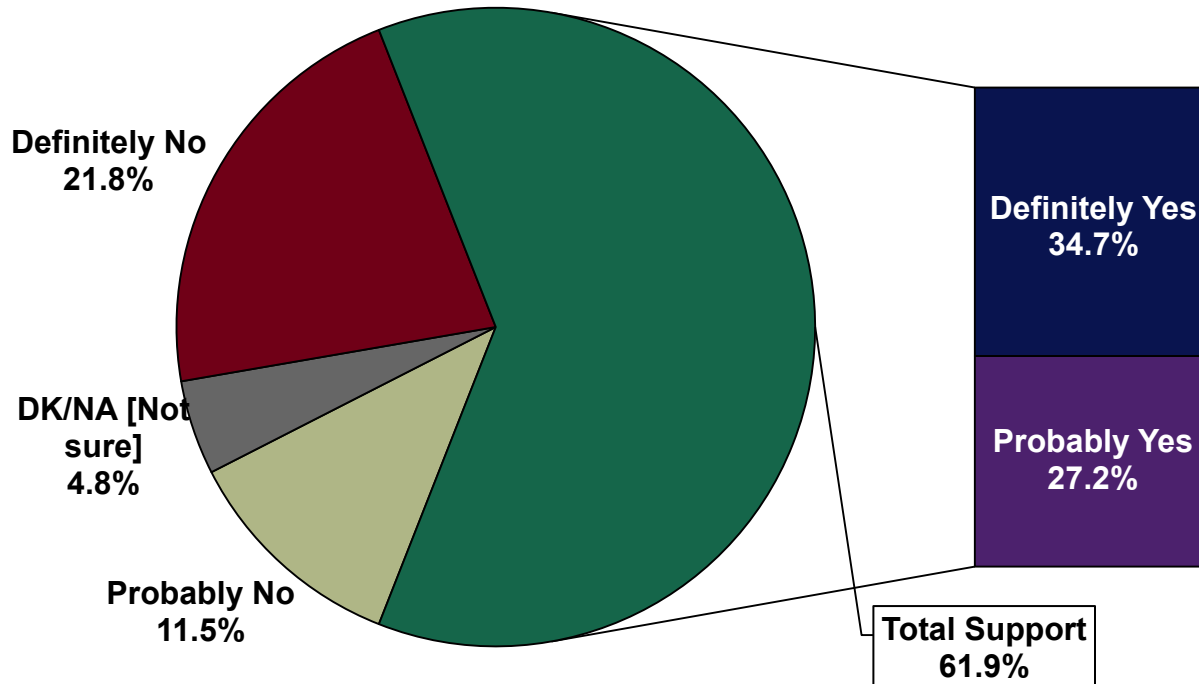
If you heard that instead of one-half cent the rate would be one-quarter of a cent, would you vote yes or no on this measure?

Support for Alternative 9 Year Duration

Split Sample D (n=239)



GODBE RESEARCH
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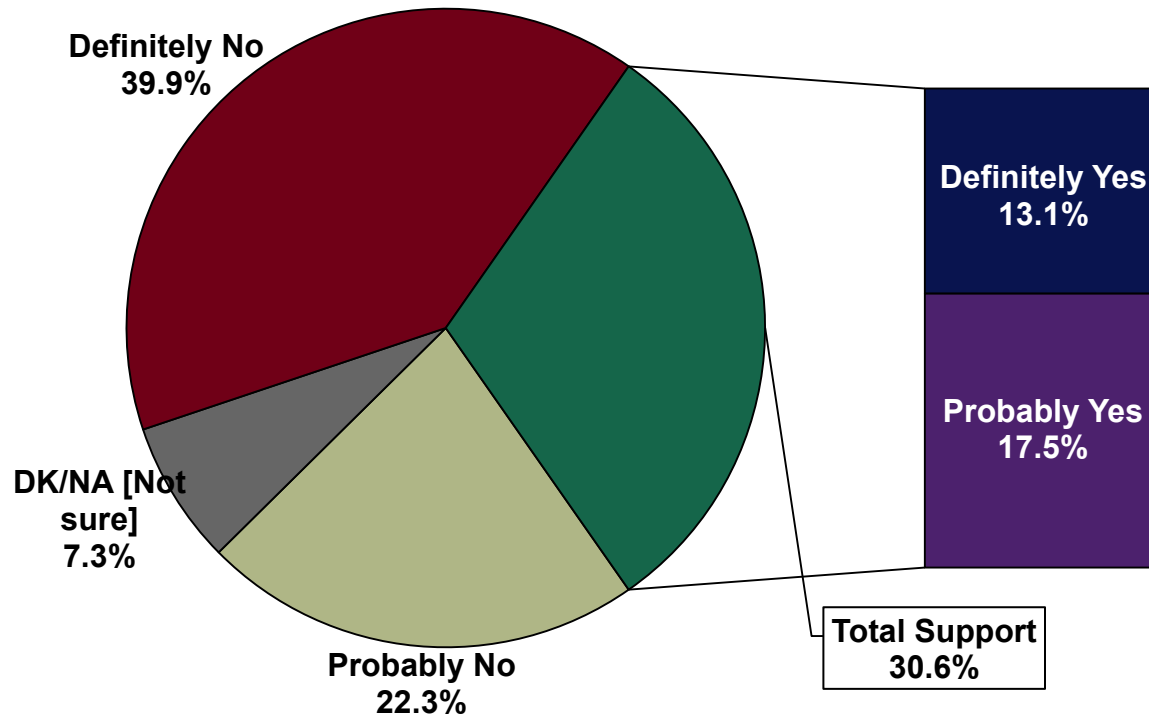
The duration of the measure to fix potholes, sidewalks and repair neighborhood and major town streets; upgrade town parks, playground equipment and restrooms; upgrade walking, hiking and bike trails; and other essential town facilities and services has yet to be decided.

If you heard the measure would last for 9 years, would you vote yes or no on this measure?

Support for a Conceptual UUT Proposal (n=471)



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If the election were held today, would you vote yes or no on this measure?



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www.godberesearch.com

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Reno, NV 89521

Pacific Northwest Office
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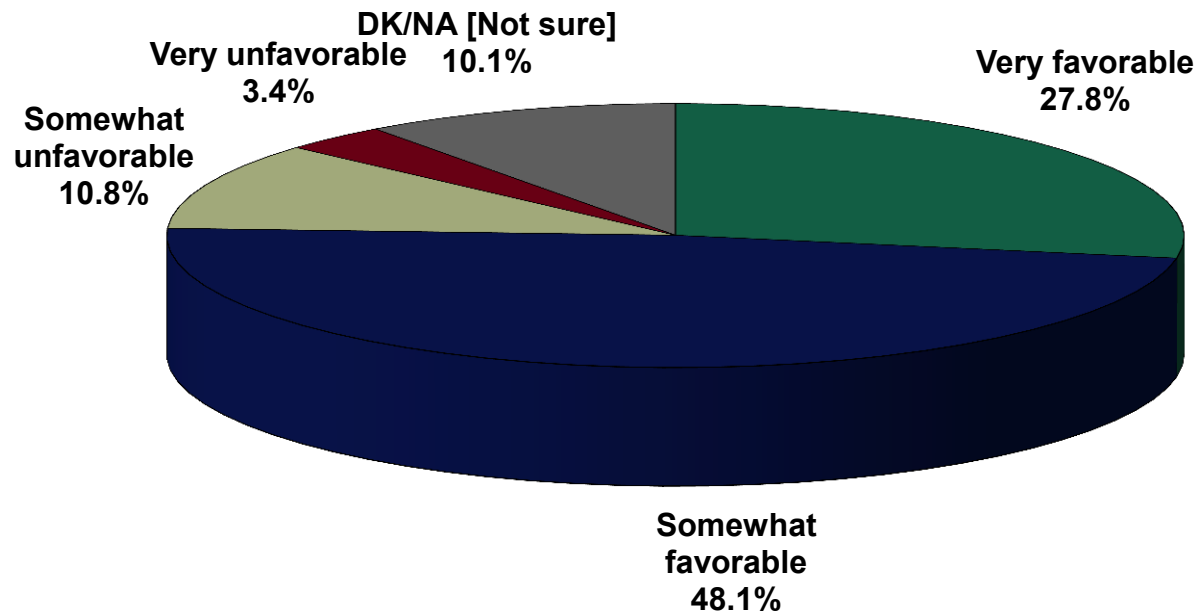


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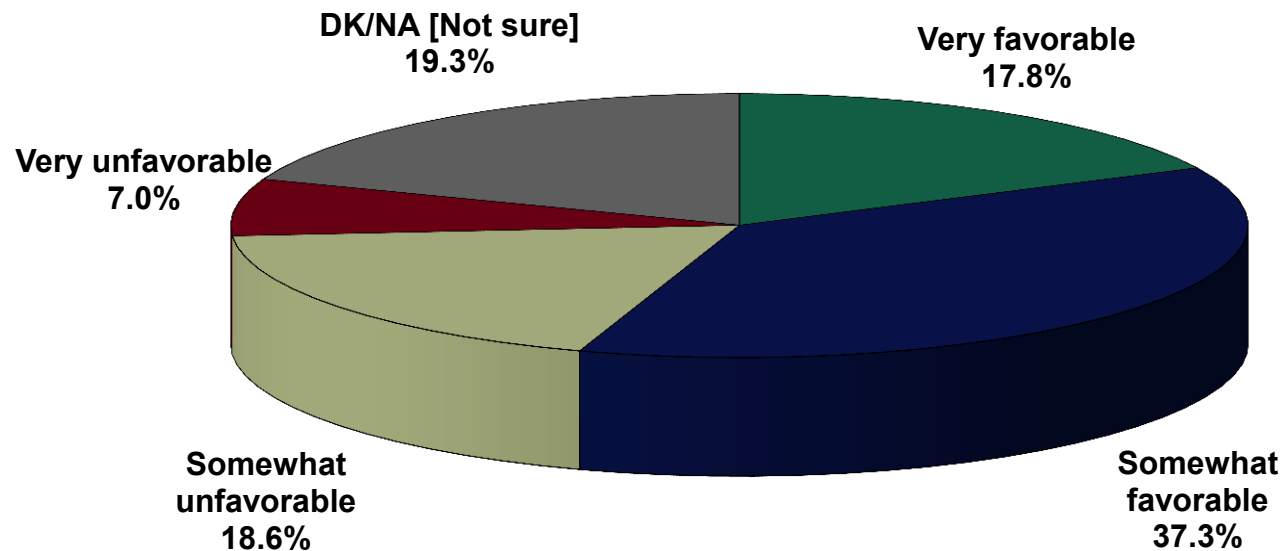


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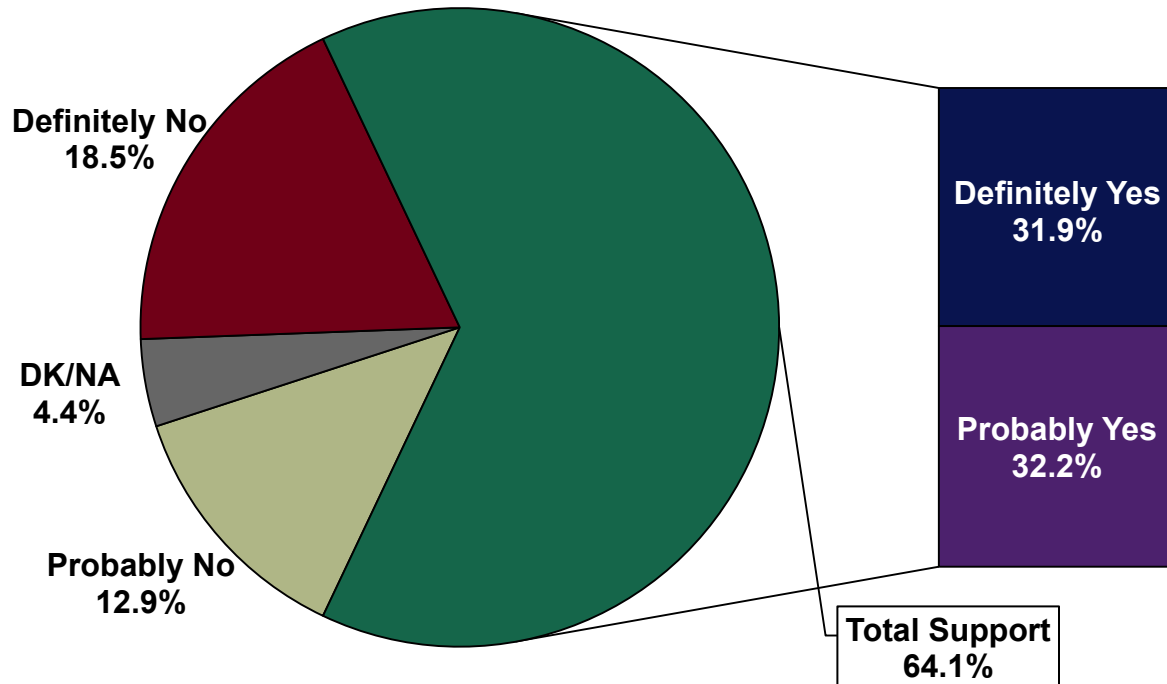


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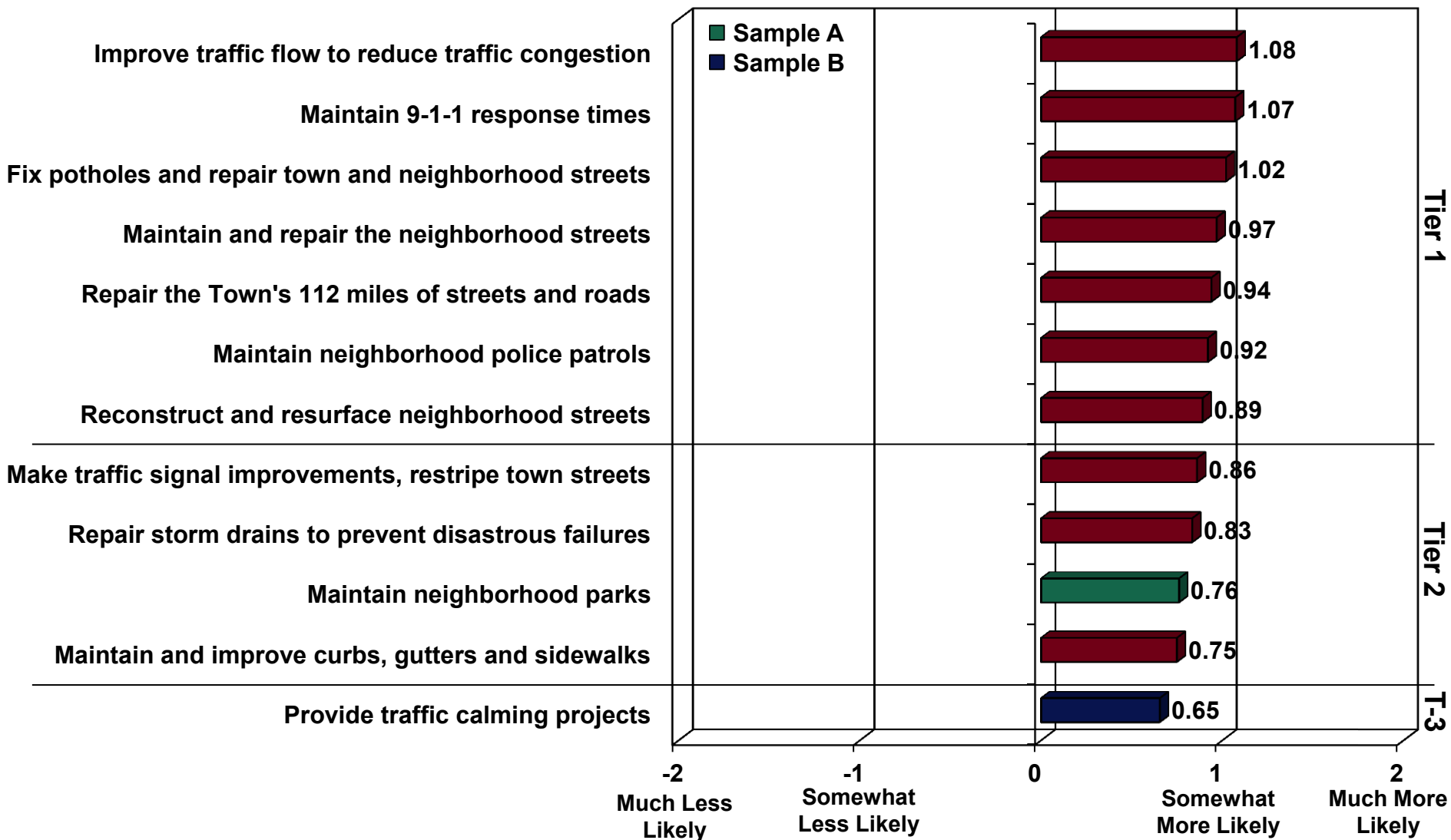
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Community Priorities (n=471)



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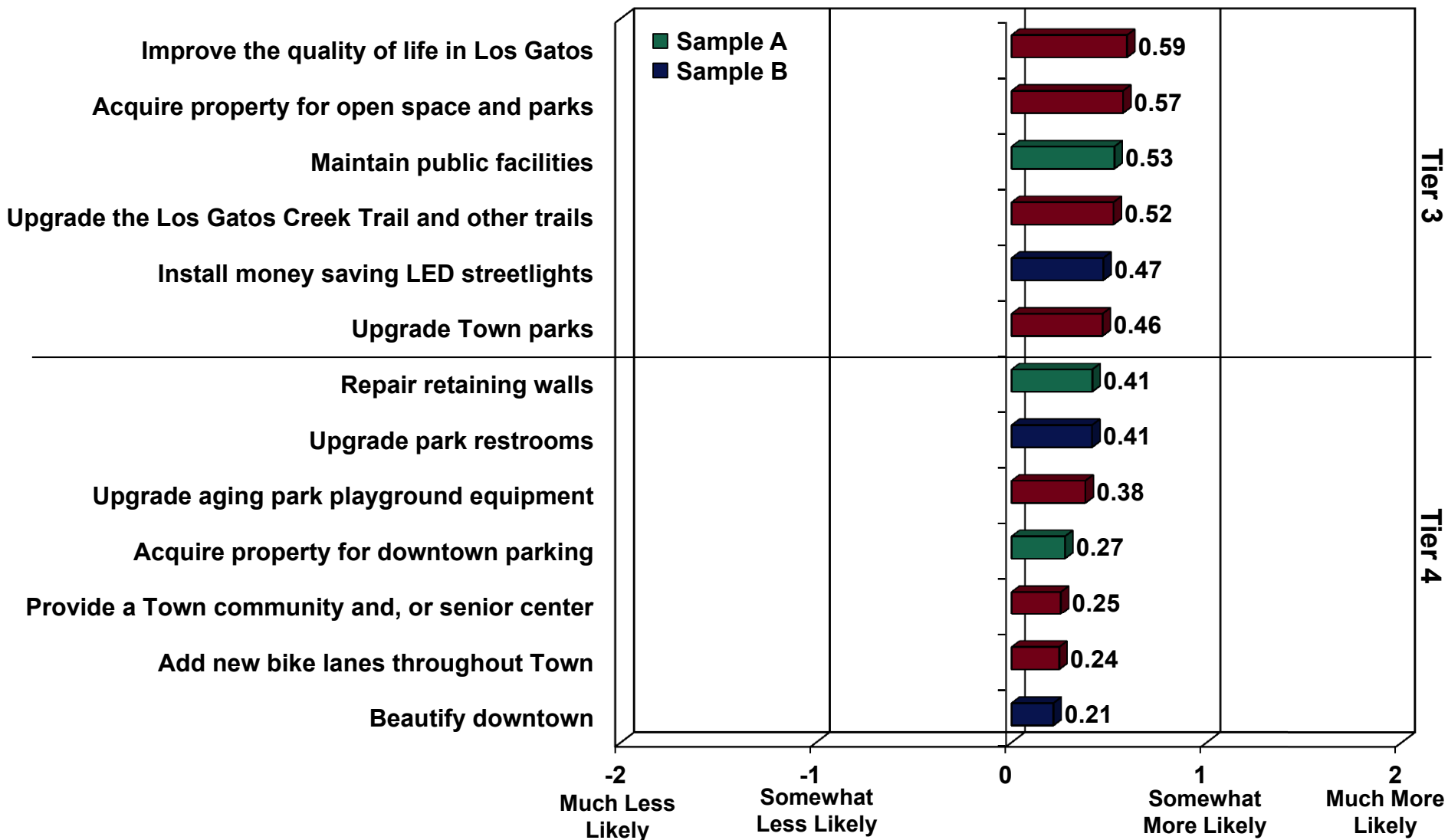


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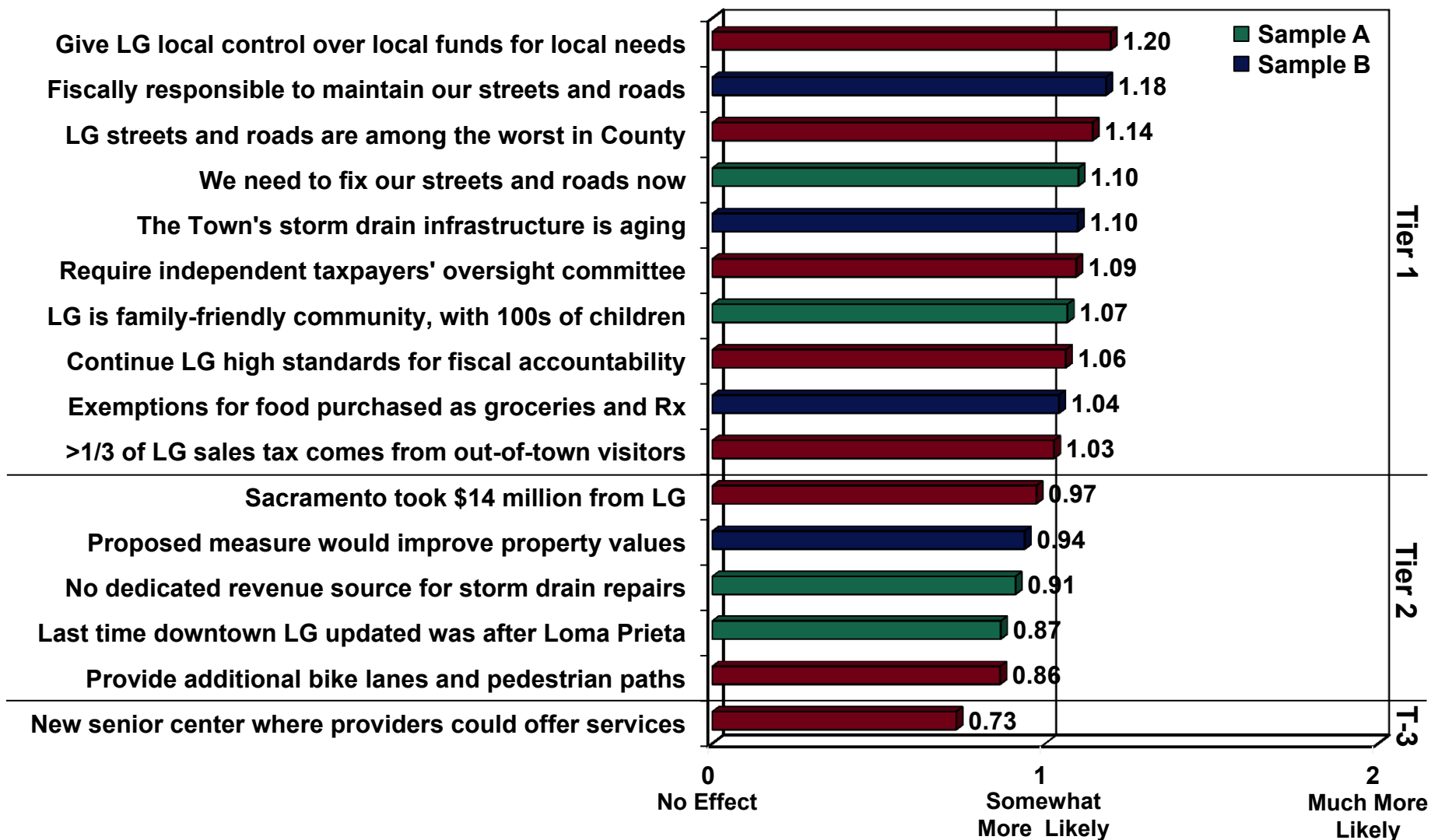


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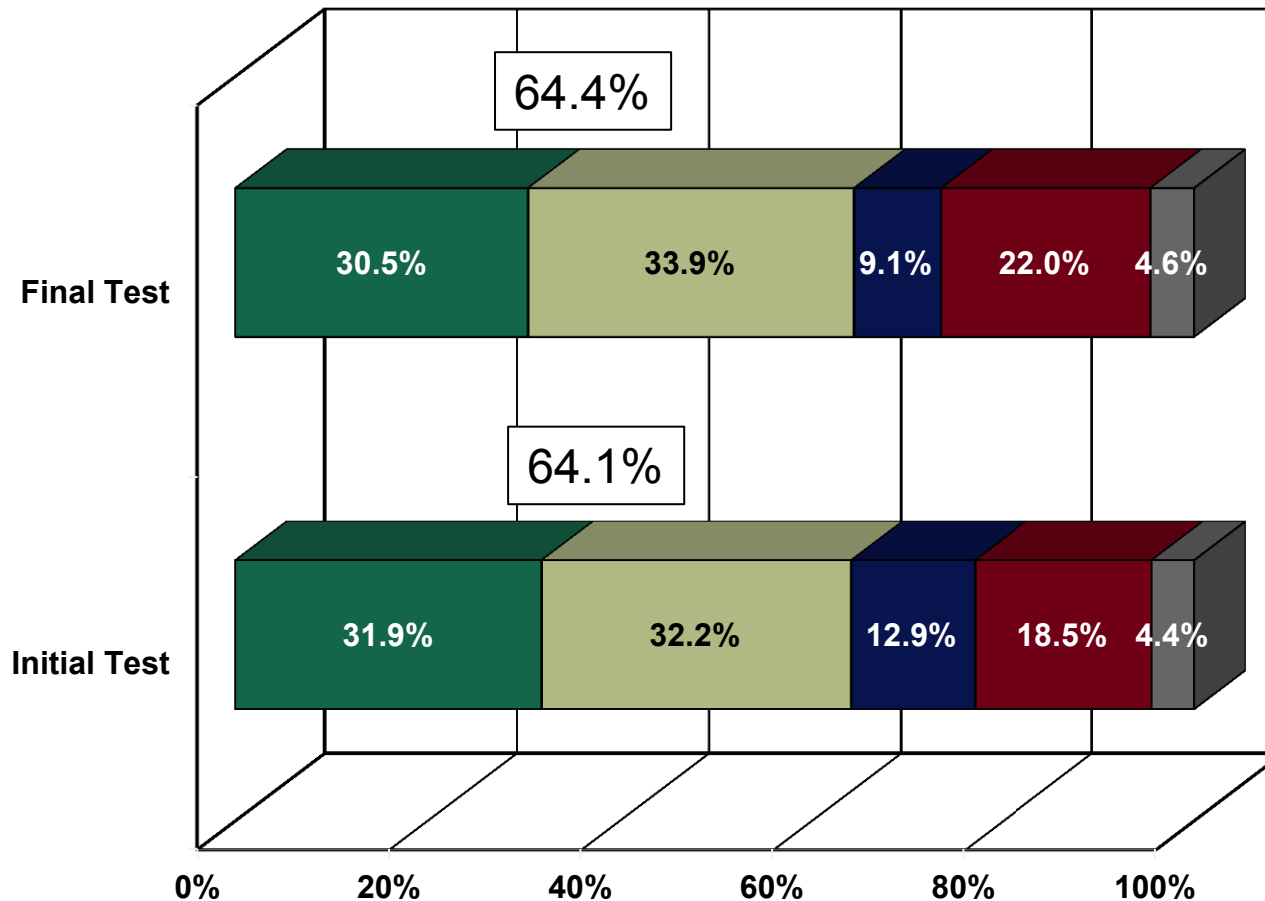


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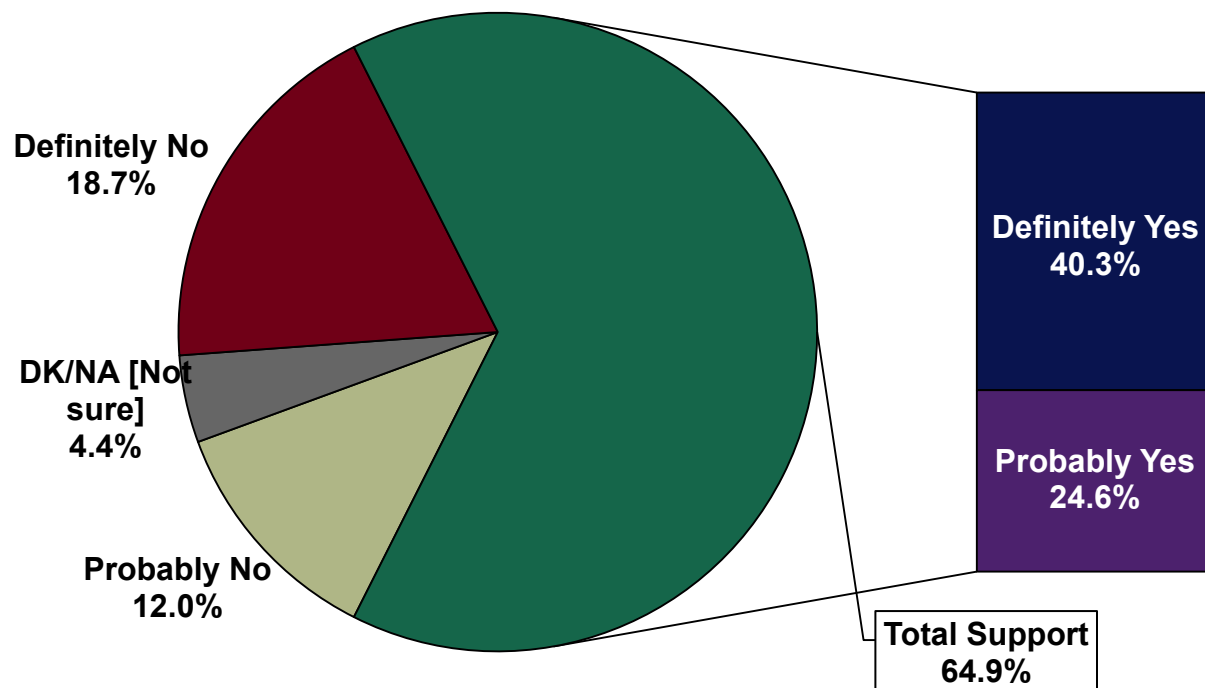
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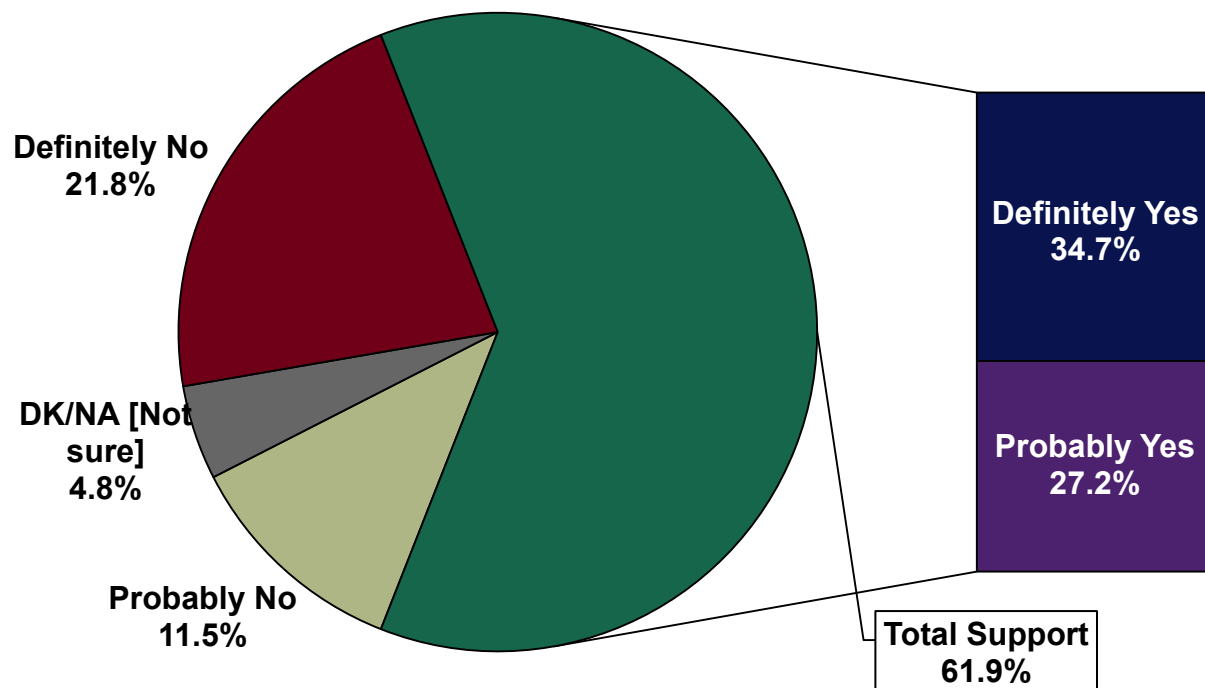
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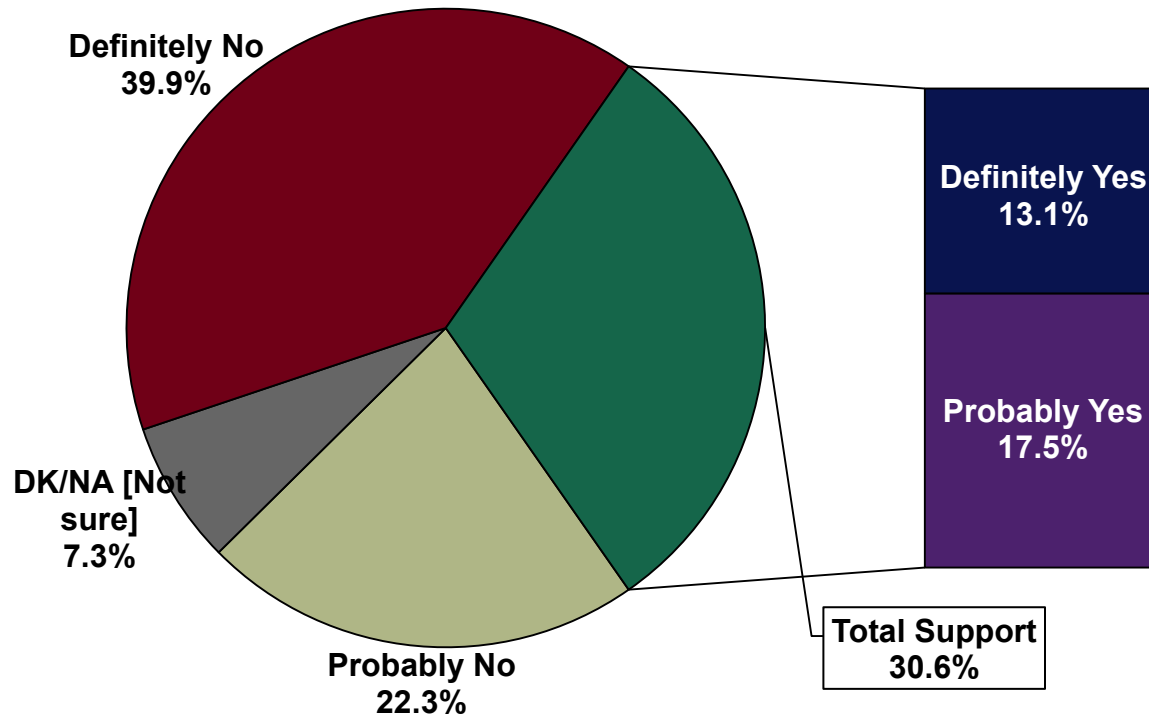
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Bellevue, WA 98004

TOWN OF LOS GATOS MEMORANDUM

TO: Laurel Prevetti, Town Manager, Town of Los Gatos

FROM: Nick Dayhoff, Senior Consultant

DATE: December 14, 2023

SUBJECT: Revenue Modeling Scenarios

Purpose

The Town of Los Gatos (the “Town”) has requested a comprehensive evaluation of options to increase revenue to address the Town’s forecasted budget deficits in the near term. This evaluation includes modeling for increases to sales tax and transient occupancy tax (“TOT”) rates, and a limited model for a new utility user tax (“UUT”) and a new parcel tax. This Memorandum summarizes additional revenues that could be generated via a new parcel tax based on various revenue targets, the estimated revenue generated by potential increases to the Town’s sales tax and TOT rates, and the estimated revenue generated by the implementation of a UUT.

Projected Budget Deficits

According to the Town’s Operating and Capital Summary Budget for Fiscal Year 2023/24, the following table shows the forecasted budget deficits for Fiscal Years 2025/26 through 2028/29:

Item	FY	FY	FY	FY
	2025/26	2026/27	2027/28	2028/29
Forecasted Surplus/(Deficit), in Millions	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.8)

Non-Viable and Not-Recommended Revenue Options

Property Transfer Tax Increase

Only Charter cities can increase the property transfer tax rate above the general law maximum of \$0.55 per \$1,000 of value (city rate). The Town is not a Charter city.

Limited UUT for Cable, Gas, and Electric Utilities

A UUT may be imposed by the Town on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telephone (including cell phone and long distance), sanitation and cable television.

The Town does not currently levy UUTs, so modeling what the potential revenues might be from a new UUT relies on the limited amount of information received from the Town, including historical franchise fee collections from its cable, electric, and gas franchises. Since any UUT would be based upon the gross receipts of each utility, NBS has had to estimate the gross receipts of the gas, electric, and cable utilities based on forecasted franchise fee collections and franchise fee rates for the Town's cable, electric, and gas franchises.

The Town does not collect franchise fees for the water, sewer, or telephone utilities, so we cannot estimate what the gross receipts of those utilities might be. As such, we have not included these utilities in our estimate of potential UUT revenue. In addition, NBS is not including a UUT on the Town's garbage utility as part of this analysis, as the contract between the hauler and the Town is currently being negotiated and the service may no longer be categorized as a "Franchise" moving forward.

According to the Town, the following table shows the forecasted cable, electric, and gas franchise fee collections for Fiscal Years 2025/26 through 2028/29:

Title	2025/26	2026/27	2027/28	2028/29
CABLE FRANCHISE FEE	\$ 530,450	\$ 546,360	\$ 562,750	\$ 579,630
PG&E FRANCHISE FEE	441,830	455,080	468,730	482,790
TOTAL	\$ 972,280	\$ 1,001,440	\$ 1,031,480	\$ 1,062,420

From here, we can estimate what the gross receipts of the cable and gas/electric utility are, as the cable franchise fee is 5.00% of gross revenues, and the gas/electric franchise fee is 2.00% of gross revenues.

Title	2025/26	2026/27	2027/28	2028/29
CABLE @ 5% FF	\$ 10,609,000	\$ 10,927,200	\$ 11,255,000	\$ 11,592,600
PG&E @ 2% FF	22,091,500	22,754,000	23,436,500	24,139,500
TOTAL	\$ 32,700,500	\$ 33,681,200	\$ 34,691,500	\$ 35,732,100

The following table shows the potential revenue generated via various UUT rates for the cable, gas, and electric utilities for Fiscal Years 2025/26 through 2028/29:

Potential UUT	Potential New Total UUT %	Additional Revenue 2025/26 Projected	Additional Revenue 2026/27 Projected	Additional Revenue 2027/28 Projected	Additional Revenue 2028/29 Projected
1.00%	1.00%	\$ 327,005	\$ 336,812	\$ 346,915	\$ 357,321
2.00%	2.00%	654,010	673,624	693,830	714,642
3.00%	3.00%	981,015	1,010,436	1,040,745	1,071,963
4.00%	4.00%	1,308,020	1,347,248	1,387,660	1,429,284
5.00%	5.00%	1,635,025	1,684,060	1,734,575	1,786,605

The following table shows how the maximum estimated UUT revenue (5.00%) in the table above would affect the Town's forecasted deficits:

Item	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
Forecasted Surplus/(Deficit), in Millions	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.8)
UUT Revenue @ 5.00%, in Millions	1.6	1.7	1.7	1.8
Forecasted Surplus/(Deficit), in Millions	(\$1.2)	(\$1.4)	(\$1.6)	(\$2.0)

Based on these revenue estimates, the Town would still be in deficit in the near term; however, if combined with the following other recommended revenue options, the Town could potentially close its deficit. The approval of a majority of registered voters within the Town is needed to implement a UUT. In general, obtaining voter approval for a new UUT where none existed is difficult to achieve. In addition, when Town voters were asked about a new UUT in a 2016 poll, opposition was twice that of support, with 62% opposed and 31% in favor. We see no reason why this sentiment should have changed enough since then to make a new UUT a viable option for the Town. In addition, from 2002 through 2020, 85 cities asked for voter approval of a new UUT, and just 28 (33%) were successful, even though approval required only a majority vote.

UUT for Streaming Video Services

In 2021, a judge in Los Angeles ruled that local utility laws don't cover streaming services, so imposing a UUT on streaming services may not be a viable option. NBS recommends that the Town obtain a legal opinion on this matter.

Special Assessment Districts

Several statutes authorize cities to levy assessment for specific services and facilities. General law cities considering assessments are limited to the services and facilities types listed in each statute and must comply with the substantive and procedural requirements in Article XIII D of the California Constitution, added by Proposition 218, and the Proposition 218 Omnibus Implementation Act.

The following are some of the most used authorizing statutes for assessments and the kinds of services and facilities for which they can be used:

Landscaping and Lighting Act of 1972: Authorizes assessments for such things as the installation, construction, and maintenance of landscaping; ornamentation; street lighting, including traffic signals; curbs, gutters, sidewalks, and drainage; parks and recreational facilities; community centers, auditoriums, and public performance space.

Benefit Assessment Act of 1982: Authorizes assessments for the maintenance of drainage; flood control; street lighting; and streets, roads, or highways.

Improvement Act of 1911 ("1911 Act"): Authorizes assessments for a variety of public improvements, such as streets and sidewalks, including decorative features; sewers; storm drains; lighting; pipes and hydrants for fire protection; levees and walls for the protection of streets and to prevent beach erosion or promote accretion to beaches; water supply; gas supply; bomb shelters; trees and landscaping; mooring; land

stabilization improvements. It also allows assessment revenue to be used for limited acquisition of land related to the authorized improvements.

Municipal Improvement Act of 1913 ("1913 Act"): Generally authorizes assessments for the acquisition of land and construction of a wide array of public works and improvements, including but not limited to utilities. It also allows for the financing of some improvements to private property, such as seismic strengthening and fire safety.

In calculating an assessment, a city must first determine the entire cost of the facility or service to be funded. It must then separate the benefits of the service or facility to the general public from the benefits to property owners who will be subject to the assessment. That means, in part, determining the proportionate special benefit that each parcel subject to the assessment derives from the service or facility. Finally, the assessment imposed on each parcel cannot exceed the cost of the special benefit conferred on the parcel.

An option to fund general city services via special assessment does not exist in California. In addition, assessment districts may not fund general public-safety services, as those services have been deemed to provide general benefits to entire communities, and not special benefits to certain properties.

Transient Occupancy Tax

The Town currently levies a TOT in the amount of 12% of the rent charged by the operator for the privilege of occupancy in any hotel. It's worth noting here that Palo Alto has a 15.50% TOT rate, Los Altos and Milpitas have a 14.00% TOT rate, Santa Clara, Sunnyvale, and the unincorporated areas of Santa Clara County have a 12.50% TOT rate, Campbell and Cupertino have a 12.00% TOT rate, Morgan Hill, Mountain View, San Jose and Saratoga have a 10.00% TOT rate, and Gilroy has a 9.00% TOT. Los Altos Hills and Monte Serreno do not currently have a TOT.

According to the Town's Operating and Capital Summary Budget for Fiscal Year 2023/24, the following table shows the forecasted TOT collections for Fiscal Years 2025/26 through 2028/29, including what each 1% yields:

FY	Forecasted TOT Collections	Each 1% Yields ¹
2025/26	\$ 2,600,000	\$ 216,667
2026/27	2,600,000	216,667
2027/28	2,600,000	216,667
2028/29	2,700,000	225,000

1 - Current TOT rate is 12%

The following table shows the potential revenue generated via various increases in the Town's TOT rate for Fiscal Years 2025/26 through 2028/29:

Potential TOT Increase	Potential New Total TOT %	Additional Revenue 2025/26 Projected	Additional Revenue 2026/27 Projected	Additional Revenue 2027/28 Projected	Additional Revenue 2028/29 Projected
0.25%	12.25%	\$ 54,167	\$ 54,167	\$ 54,167	\$ 56,250
0.50%	12.50%	108,333	108,333	108,333	112,500
0.75%	12.75%	162,500	162,500	162,500	168,750
1.00%	13.00%	216,667	216,667	216,667	225,000
1.25%	13.25%	270,833	270,833	270,833	281,250
1.50%	13.50%	325,000	325,000	325,000	337,500
1.75%	13.75%	379,167	379,167	379,167	393,750
2.00%	14.00%	433,333	433,333	433,333	450,000
2.25%	14.25%	487,500	487,500	487,500	506,250
2.50%	14.50%	541,667	541,667	541,667	562,500
2.75%	14.75%	595,833	595,833	595,833	618,750
3.00%	15.00%	650,000	650,000	650,000	675,000
3.25%	15.25%	704,167	704,167	704,167	731,250
3.50%	15.50%	758,333	758,333	758,333	787,500

The following table shows how the maximum estimated additional TOT revenue (3.50% increase) in the table above would affect the Town's forecasted deficits:

Item	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
Forecasted Surplus/(Deficit), in Millions	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.8)
TOT Revenue @ 15.50%, in Millions	0.8	0.8	0.8	0.8
Forecasted Surplus/(Deficit), in Millions	(\$2.0)	(\$2.3)	(\$2.5)	(\$3.0)

NBS does not recommend increasing the TOT rate, as any potential increase doesn't raise that much additional revenue to support the Town's budget deficit.

Business License Tax Modification

The Town may also have an interest in exploring a modification to its Business License Tax to add a charge per employee. NBS is not modeling what the rate per employee would be as the Town does not yet know the number of employees that would be subject to the tax. It's also worth noting here that voters in the Town approved an increase to the Business License Tax in November 2022 (Measure J), so perhaps it's too soon to ask the voters for another modification.

Recommended Revenue Options

Sales Tax Rate Modeling

The current sales tax rate in the Town is 9.25%, of which the Town's share is 1% (not including the Measure G sales tax rate of 0.125%). The Town has the capacity to raise its sales tax rate by an additional 0.125%.

According to the Town's Operating and Capital Summary Budget for Fiscal Year 2023/24, the following table shows the forecasted sales tax collections for Fiscal Years 2025/26 through 2028/29, including what each 1% yields:

FY	Forecasted Sales Tax Collections	Each 1% Yields ¹
2025/26	\$ 8,500,000	\$ 8,500,000
2026/27	8,700,000	8,700,000
2027/28	9,000,000	9,000,000
2028/29	9,300,000	9,300,000

1 - Current sales tax rate is 9.25%, of which the City receives 1% (does not include Measure G sales tax rate of 0.125%)

The following table shows the potential revenue generated via a 0.125% increase in the Town's sales tax rate for Fiscal Years 2025/26 through 2028/29:

Potential Sales Tax Increase	Potential New Total Sales Tax %	Additional Revenue 2025/26 Projected	Additional Revenue 2026/27 Projected	Additional Revenue 2027/28 Projected	Additional Revenue 2028/29 Projected
0.125%	9.375%	\$ 1,062,500	\$ 1,087,500	\$ 1,125,000	\$ 1,162,500

The following table shows how the estimated additional sales tax revenue would affect the Town's forecasted deficits:

Item	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
Forecasted Surplus/(Deficit), in Millions	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.8)
Sales Tax Revenue, in Millions	1.1	1.1	1.1	1.2
Forecasted Surplus/(Deficit), in Millions	(\$1.7)	(\$2.0)	(\$2.2)	(\$2.6)

It's worth noting here that Campbell, Milpitas, and San Jose already have a 9.375% sales tax rate, while all other cities (excluding the Town) in Santa Clara County and the unincorporated areas of Santa Clara County are currently subject to a sales tax rate of 9.125%.

The amount of revenue generated by a potential sales tax increase does not completely fill the Town's budget deficit, but it is higher than the potential revenue generated by an increase in the Town's TOT rate and could potentially serve as a "first step" for the Town to raise additional revenue. If structured as a general sales tax, the Town would only need to secure approval from a majority of the registered voters within the Town to increase the sales tax rate. NBS recommends that the Town move quickly on this option, if desired, as the Town's remaining capacity for a sales tax increase could be utilized by another government agency within the County during the next election cycle.

Parcel Tax Scenarios

For purposes of modeling a new parcel tax, the Town has provided four revenue target scenarios to fill its projected operating deficits: a consensus target of \$3.5MM, a high target of \$4MM, a middle target of \$2MM, and a low target of \$1MM, as shown below:

Revenue Target	Amount
High	\$ 4,000,000
Consensus	\$ 3,500,000
Middle	\$ 2,000,000
Low	\$ 1,000,000

Our analysis assumes that the parcel tax, if approved in November 2024, would be collected beginning in Fiscal Year 2025/26, and rates would increase by 3% per year. The following table shows how each of the four revenue target scenarios for a potential parcel tax would affect the Town's forecasted deficits:

Item	FY 2025/26	FY 2026/27	FY 2027/28	FY 2028/29
Forecasted Surplus/(Deficit), in Millions	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.8)
Parcel Tax Revenue, in Millions (High)	4.0	4.1	4.2	4.4
Forecasted Surplus/(Deficit), in Millions (High)	\$1.2	\$1.0	\$0.9	\$0.6
Parcel Tax Revenue, in Millions (Consensus)	3.5	3.6	3.7	3.8
Forecasted Surplus/(Deficit), in Millions (Consensus)	\$0.7	\$0.5	\$0.4	\$0.0
Parcel Tax Revenue, in Millions (Middle)	2.0	2.1	2.1	2.2
Forecasted Surplus/(Deficit), in Millions (Middle)	(\$0.8)	(\$1.0)	(\$1.2)	(\$1.6)
Parcel Tax Revenue, in Millions (Low)	1.0	1.0	1.1	1.1
Forecasted Surplus/(Deficit), in Millions (Low)	(\$1.8)	(\$2.1)	(\$2.2)	(\$2.7)

Based on the latest Santa Clara County Assessor's data from July 2023, there are a total of 11,230 parcels within the Town that would be Taxable, and an additional 365 parcels that would be Non-Taxable (generally publicly owned parcels, utilities, common areas, mobile homes, or other parcels with no assessed value). We provide below three parcel tax scenarios for each of the four revenue targets scenarios: (1) a uniform rate per parcel, (2) a uniform rate per lot square foot, (3) a uniform rate per building square foot, (4) a uniform rate per parcel with senior/low-income exemptions, (5) a uniform rate per lot square foot with senior/low-income exemptions, and (6) a uniform rate per building square foot with senior/low-income exemptions.

Without Senior/Low-Income Exemptions

Description	Rate - High	Rate - Consensus	Rate - Mid	Rate - Low
Taxable Parcels - per Parcel	\$ 356.19	\$ 311.67	\$ 178.09	\$ 89.05
Taxable Parcels - per Lot Square Foot	\$ 0.0203	\$ 0.0178	\$ 0.0102	\$ 0.0051
Taxable Parcels - per Building Square Foot	\$ 0.14	\$ 0.12	\$ 0.07	\$ 0.03

The average taxes on SFR and Condo parcels under the consensus revenue target for the three different apportionment methods are shown below:

Average of Parcel Tax - By Parcel	Average of Parcel Tax - By LotSqFt	Average of Parcel Tax - By BldgSqFt
\$ 311.67	\$ 254.10	\$ 262.08

With Senior/Low-Income Exemptions

For the purposes of this analysis, we have assumed that 10% of Taxable single-family residential parcels, 10% of Taxable single-family residential lot area, or 10% of Taxable single-family residential building area could qualify for a senior/low-income exemption, if offered.

Description	Rate - High	Rate - Consensus	Rate - Mid	Rate - Low
Taxable Parcels - per Parcel	\$ 390.82	\$ 341.96	\$ 195.41	\$ 97.70
Taxable Parcels - per Lot Square Foot	\$ 0.0219	\$ 0.0192	\$ 0.0110	\$ 0.0055
Taxable Parcels - per Building Square Foot	\$ 0.15	\$ 0.13	\$ 0.07	\$ 0.04

The average taxes on SFR and Condo parcels under the consensus revenue target for the three different apportionment methods are shown below:

Average of Parcel Tax - By Parcel (SLI)	Average of Parcel Tax - By LotSqFt (SLI)	Average of Parcel Tax - By BldgSqFt (SLI)
\$ 341.96	\$ 273.89	\$ 283.18

Commercial/Office/Industrial Parcels Only

The Town has also requested a scenario for a parcel tax that would only apply to Taxable Commercial/Office/Industrial Properties at a rate per building square foot over 25k building square feet. The rates per building square foot over 25k building square feet for each of the revenue targets are shown below:

Description	Rate - High	Rate - Consensus	Rate - Mid	Rate - Low
Taxable Commercial/Office/Industrial Parcels - per Building Square Foot > 25K	\$ 3.31	\$ 2.90	\$ 1.66	\$ 0.83

There are 35 Commercial/Office/Industrial parcels with buildings of 25,000 square feet or more and the resulting annual tax per owner would range from approximately \$4,600 to \$612,000.

The parcel tax option is the only reliable way to correct the Town's projected deficits with one funding mechanism, however attaining two-thirds approval from voters at the rates that meet that objective may be difficult. I look forward to our upcoming meeting to discuss these revenue scenarios and the resulting model results. Please contact me with any questions or comments; I can be reached at 800. 676.7516 or via email at ndayhoff@nbsgov.com.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Nick Dayhoff', with a long, sweeping horizontal line extending to the right.

Nick Dayhoff
Senior Consultant

TOWN OF LOS GATOS, CALIFORNIA
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023

Functions/Programs	Expenses	Program Revenues			Total	Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Governmental Activities:						
General government	\$ 10,522,568	\$ 2,635,527	\$ -	\$ -	\$ 2,635,527	\$ (7,887,041)
Public safety	17,428,923	1,846,312	4,622,373	-	6,468,685	(10,960,238)
Parks and public works	12,258,626	3,590,936	1,735,608	3,915,175	9,241,719	(3,016,907)
Community development	5,215,961	3,971,336	616,937	-	4,588,273	(627,688)
Library services	3,653,642	2,039	174,663	-	176,702	(3,476,940)
Sanitation	208,262	359,950	-	-	359,950	151,688
Interest and fees	29,221	-	-	-	-	(29,221)
Total Governmental Activities	<u>\$ 49,317,203</u>	<u>\$ 12,406,100</u>	<u>\$ 7,149,581</u>	<u>\$ 3,915,175</u>	<u>\$ 23,470,856</u>	<u>(25,846,347)</u>
General revenues:						
Taxes:						
Property taxes						22,746,842
Sales taxes						8,806,477
Franchise taxes						3,074,624
Transient occupancy taxes						2,228,190
Other taxes						63,818
Motor vehicle in lieu						34,406
Developer fees						614,820
Investment earnings:						
Investment earnings						794,390
Unrealized gains (losses)						3,197
Miscellaneous						1,029,864
Total general revenues						39,396,628
Special items:						
Settlements						1,565,000
Total general revenues and special items						40,961,628
Change in Net Position						15,115,281
Net Position - Beginning						138,406,981
Net Position - Ending						\$ 153,522,262

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	General	Appropriated Reserves	ARPA	Other Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property Taxes	\$ 22,743,087	\$ -	\$ -	\$ 38,161	\$ 22,781,248
Sales Taxes	8,806,477	-	-	-	8,806,477
Transient Occupancy Taxes	2,228,190	-	-	-	2,228,190
Other Taxes	6,454	-	-	29,042	35,496
Licenses & Permits	5,630,362	181,533	-	521,780	6,333,675
Intergovernmental	1,553,396	3,358,063	3,614,872	1,619,489	10,145,820
Charges for Services	4,646,705	1,072,009	-	-	5,718,714
Fines and Forfeitures	416,950	-	-	-	416,950
Franchise Fees	3,074,624	-	-	-	3,074,624
Developer Fees	-	614,820	-	-	614,820
Interest	605,789	44,198	-	147,595	797,582
Use of Property	38,126	91,284	-	108,237	237,647
Other	859,571	-	-	125,617	985,188
Total Revenues	50,609,731	5,361,907	3,614,872	2,589,921	62,176,431
EXPENDITURES					
Current:					
General Government	8,828,779	-	-	-	8,828,779
Public Safety	18,446,048	-	-	-	18,446,048
Parks and Public Works	8,998,088	-	-	86,318	9,084,406
Community Development	5,065,412	-	-	-	5,065,412
Library Services	3,096,486	-	-	111,541	3,208,027
Sanitation and Other	-	-	-	204,097	204,097
Capital Outlay	300,000	6,722,633	-	1,894,442	8,917,075
Debt service:					
Principal	156,034	-	-	-	156,034
Total Expenditures	44,890,847	6,722,633	-	2,296,398	53,909,878
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	5,718,884	(1,360,726)	3,614,872	293,523	8,266,553
OTHER FINANCING SOURCES (USES)					
Settlements	-	1,565,000	-	-	1,565,000
Gain from sale of assets	2,162	-	-	-	2,162
Transfers in	4,153,408	7,732,614	-	-	11,886,022
Transfers (out)	(7,242,939)	(427,616)	(3,614,872)	(110,920)	(11,396,347)
Total Other Financing Sources (Uses)	(3,087,369)	8,869,998	(3,614,872)	(110,920)	2,056,837
NET CHANGES IN FUND BALANCES	2,631,515	7,509,272	-	182,603	10,323,390
BEGINNING FUND BALANCES	26,896,789	14,240,753	-	9,724,596	50,862,138
ENDING FUND BALANCES	\$ 29,528,304	\$ 21,750,025	\$ -	\$ 9,907,199	\$ 61,185,528

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 10,323,390**

Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

CAPITAL ASSET TRANSACTIONS

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets (additions)	\$ 8,598,811	
Current year depreciation	<u>(3,950,198)</u>	4,648,613

Gains and losses from the disposal of capital assets are not considered current financial resources and are not recorded in the governmental fund statement of revenues and expenditures but are recorded in the government-wide statement of activities because they are economic resources.	(452,844)
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LONG-TERM DEBT PROCEEDS AND PAYMENTS

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Certificates of participation	156,034
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UNAVAILABLE REVENUE

Revenues from grants that are funded in this fiscal year that will not be collected for several months after the Town's fiscal year end are not considered available and are classified as deferred inflows of resources in the governmental funds.

293,000

COMPENSATED ABSENCES

In governmental funds, compensated absences such as vacations and sick leave are expenditures when taken. However, in the Government Wide Statement of Activities, the current year change in the compensated absences liability is reported.

(122,954)

OPEB PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to OPEB plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year OPEB expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.

719,946

PENSION PLAN CONTRIBUTIONS AND EXPENSE

In governmental funds, actual contributions to pension plans are reported as expenditures in the year incurred. However, in the Government-Wide Statement of Activities, only the current year pension expense as noted in the plans' valuation reports is reported as an expense, as adjusted for deferred inflows and outflows of resources.

1,247,506

ALLOCATION ON INTERNAL SERVICE FUND ACTIVITY

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue of the internal service fund is reported with governmental activities.

(1,697,410)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES

\$ 15,115,281

The notes to the financial statements are an integral part of this statement.

**TOWN OF LOS GATOS, CALIFORNIA
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (GAAP)
FOR THE FISCAL YEAR ENDED JUNE 30, 2023**

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
REVENUES				
Property Taxes	\$ 20,907,894	\$ 22,484,118	\$ 22,743,087	\$ 258,969
Sales Taxes	9,174,944	8,959,134	8,806,477	(152,657)
Transient Occupancy Taxes	1,642,460	2,348,547	2,228,190	(120,357)
Other Taxes	7,000	7,000	6,454	(546)
Licenses & Permits	4,122,529	5,140,684	5,630,362	489,678
Intergovernmental	1,051,814	1,273,910	1,553,396	279,486
Charges for Services	4,257,261	5,540,465	4,646,705	(893,760)
Fines and Forfeitures	201,750	226,750	416,950	190,200
Franchise Fees	2,493,870	2,716,470	3,074,624	358,154
Interest	432,947	670,021	605,789	(64,232)
Use of Property	41,211	41,211	38,126	(3,085)
Other	1,203,657	863,964	859,571	(4,393)
Total Revenues	45,537,337	50,272,274	50,609,731	337,457
EXPENDITURES				
Current:				
General Government:				
Town Council	217,238	217,240	186,337	30,903
Town Attorney	707,555	811,427	699,143	112,284
Administrative Services	5,298,494	5,759,393	5,302,281	457,112
Non-Departmental	3,194,526	3,334,931	2,641,018	693,913
Total General Government	9,417,813	10,122,991	8,828,779	1,294,212
Public Safety	19,225,985	19,331,330	18,446,048	885,282
Parks & Public Works	9,798,967	10,368,194	8,998,088	1,370,106
Community Development	5,772,004	6,543,199	5,065,412	1,477,787
Library Services	3,139,449	3,247,730	3,096,486	151,244
Capital Outlay	-	435,416	300,000	135,416
Debt Service:				
Principal	-	156,034	156,034	-
Total Expenditures	47,354,218	50,204,894	44,890,847	5,314,047
EXCESS (DEFICIT) OF REVENUES OVER EXPENDITURES	(1,816,881)	67,380	5,718,884	5,651,504
OTHER FINANCING SOURCES (USES)				
Gain from sale of assets	600	600	2,162	1,562
Transfers In	2,183,817	3,381,544	4,153,408	771,864
Transfers Out	(3,006,978)	(5,842,011)	(7,242,939)	(1,400,928)
Total Other Financing Sources (Uses)	(822,561)	(2,459,867)	(3,087,369)	(627,502)
NET CHANGES IN FUND BALANCE	\$ (2,639,442)	\$ (2,392,487)	2,631,515	\$ 5,024,002
BEGINNING FUND BALANCE			26,896,789	
ENDING FUND BALANCE			\$ 29,528,304	

The notes to the financial statements are an integral part of this statement.

TOWN OF LOS GATOS, CALIFORNIA
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2023

The following summarizes the leases as of June 30, 2023:

Description	Tesla		LGS 123 E. Main St		LGS 208 E. Main St	
	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources
Beginning Balance	\$ 331,696	\$ 327,100	\$ 165,056	\$ 96,396	\$ 1,329,665	\$ 732,916
Additions	-	-	-	-	-	-
Current Amortization	-	(91,284)	-	(12,997)	-	(98,820)
Current Principal Payments	(90,190)	-	(16,198)	-	(130,368)	-
Ending Balance	\$ 241,506	\$ 235,816	\$ 148,858	\$ 83,399	\$ 1,199,297	\$ 634,096

Description	Los Gatos Theatre		Totals	
	Lease Receivable	Deferred Inflows of Resources	Lease Receivable	Deferred Inflows of Resources
Beginning Balance	\$ -	\$ -	\$ 1,826,417	\$ 1,156,412
Additions	319,957	308,997	319,957	308,997
Current Amortization	-	(39,327)	-	(242,428)
Current Principal Payments	-	-	(236,756)	-
Ending Balance	\$ 319,957	\$ 269,670	\$ 1,909,618	\$ 1,222,981

NOTE 5 - INTERFUND TRANSACTIONS

Transfers - With Council approval resources may be transferred from one fund to another. Transfers routinely reimburse funds that have made an expenditure on behalf of another fund. Transfers may also be made to pay for capital projects or capital outlays, lease or debt service payments, operating expenses and low and moderate-income housing projects. Transfers between funds during the fiscal year ended June 30, 2023 were as follows:

Transfers Out			Transfers In		
Opinion Unit	Program Title	Amount	Opinion Unit	Program Title	Description
General Fund	Non-Departmental	\$ 3,006,978	Appropriated Reserves	GFAR	Adopted Budget Support
General Fund	Non-Departmental	463,572	Appropriated Reserves	Downtown Revitalization	Parklets
General Fund	Non-Departmental	243,325	Internal Service	Facilities	Rent Waivers
General Fund	Non-Departmental	2,900,000	Appropriated Reserves	GFAR	Capital projects
General Fund	Measure G Program	629,064	Appropriated Reserves	GFAR	Capital projects
Nonmajor	Blackwell District	460	General	Non-Departmental	Admin Support
Nonmajor	Kennedy Meadows	1,510	General	Non-Departmental	Admin Support
Nonmajor	Gemini Court	610	General	Non-Departmental	Admin Support
Nonmajor	Santa Rosa Heights	660	General	Non-Departmental	Admin Support
Nonmajor	Vasona Heights	1,430	General	Non-Departmental	Admin Support
Nonmajor	Hillbrook Drive	250	General	Non-Departmental	Admin Support
ARPA	ARPA	3,614,872	General	Patrol	Revenue loss, public safety
Appropriated Reserves	GFAR	102,000	General	Non-Departmental	Admin Support
Appropriated Reserves	GFAR	97,808	General	Town Engineering	Engineering Support
Appropriated Reserves	GFAR	217,808	General	PPW Admin	Engineering Support
Appropriated Reserves	Traffic Mitigation	10,000	General	Non-Departmental	Admin Support
Nonmajor	Gas Tax	106,000	General	Non-Departmental	Admin Support
Internal Service	Information Technology	700,000	Appropriated Reserves	GFAR	Ent. Res. Planning Software Update
Internal Service	Information Technology	33,000	Appropriated Reserves	ERP Upgrade	Ent. Res. Planning Software Update
Total Transfers		\$ 12,129,347			

\$ 4,153,408 Transferred in

Account	Revenue Category	FY 2022/23 Adjusted Budget	FY 2022/23 Estimates	FY 2023/24 Adopted Budget	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
4100	Property Tax	\$ 17.0	\$ 17.2	\$ 17.9	\$ 17.8	\$ 18.5	\$ 18.9	\$ 19.5	\$ 20.1
4110	VLF Backfill Property Tax	4.6	4.6	4.7	4.8	5.0	5.1	5.3	5.4
4200	Sales & Use Tax	7.5	7.7	7.9	8.1	8.5	8.7	9.0	9.3
4200	Measure G District Sales Tax	1.3	1.3	1.3	1.3	1.3	1.4	1.4	1.4
4250	Franchise Fees	2.7	2.7	2.1	1.9	1.9	1.9	2.0	2.0
4251	Transient Occupancy Tax	2.0	2.3	2.4	2.5	2.6	2.6	2.6	2.7
4400	Business License Tax	2.4	2.3	2.4	2.5	2.5	2.6	2.6	2.7
4400	Licenses & Permits	2.9	2.9	2.9	2.9	3.0	3.1	3.2	3.3
4500	Intergovernmental	1.3	1.3	0.9	0.9	0.9	1.0	1.0	1.0
4600	Town Services	4.8	5.1	4.4	4.2	4.2	4.3	4.4	4.6
4700	Fines & Forfeitures	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
4800	Interest	0.4	0.7	1.0	0.9	0.9	0.9	0.9	0.9
4850	Other Sources	3.5	7.1	3.6	2.8	2.8	3.0	2.9	2.9
4900	Fund Transfers In	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
TOTAL OPERATING REVENUES & TRANSFERS*		\$ 51.1	\$ 55.9	\$ 52.2	\$ 51.3	\$ 52.8	\$ 54.2	\$ 55.5	\$ 57.0
	Capital	2.4	2.4	1.6	0.8	0.8	0.8	0.8	0.8
	Use of Pension/OPEB Reserve	0.3	0.3	-	-	-	-	-	-
	Use of OPEB Trust	-	-	-	-	-	-	-	-
	ARPA Replacement Revenue	1.6	-	-	-	-	-	-	-
	Vitalities	-	6.1	0.7	-	-	-	-	-
TOTAL REVENUES, TRANSFERS, AND USE OF RESERVES		\$ 55.4	\$ 64.7	\$ 54.5	\$ 52.1	\$ 53.6	\$ 55.0	\$ 56.3	\$ 57.8
Account	Expenditure Category	FY 2022/23 Adjusted Budget	FY 2022/23 Estimates	FY 2023/24 Adopted Budget	FY 2024/25 Forecast	FY 2025/26 Forecast	FY 2026/27 Forecast	FY 2027/28 Forecast	FY 2028/29 Forecast
5110	Salary	23.0	22.5	23.2	23.8	24.4	25.0	25.5	26.0
5120	CalPERS Benefits	7.7	6.8	8.2	8.6	8.9	9.6	10.2	11.1
5200	All Other Benefits	4.6	3.9	4.7	4.8	4.9	5.0	5.1	5.2
	4.6% Salary and Benefits Savings	-	-	(1.7)	(1.7)	(1.8)	(1.8)	(1.9)	(1.9)
6211	OPEB Pay as You Go	1.6	1.6	1.6	1.8	1.9	2.0	2.0	2.0
6000	Operating Expenditures	8.0	11.7	9.0	8.8	8.9	9.2	9.3	9.7
7200	Grants & Awards	0.5	1.2	0.8	0.6	0.6	0.3	0.3	0.3
7400	Utilities	0.6	0.6	0.6	0.6	0.7	0.7	0.7	0.7
8060	Internal Service Charges	2.7	2.6	3.4	3.6	3.7	3.9	4.1	4.2
8900	Debt Service	2.0	2.0	2.1	2.1	2.1	2.1	2.1	2.1
TOTAL OPERATING EXPENDITURES		\$ 50.8	\$ 53.0	\$ 51.9	\$ 52.9	\$ 54.2	\$ 55.9	\$ 57.4	\$ 59.4
	GASB 45 Retiree Medical Actuarial	-	-	-	-	-	-	-	-
	Additional Discretionary Payment - Pension	0.7	0.7	0.4	0.4	0.4	0.4	0.4	0.4
TOTAL OPERATING & DISCRETIONARY EXPENDITURES		\$ 51.5	\$ 53.7	\$ 52.3	\$ 53.3	\$ 54.6	\$ 56.3	\$ 57.8	\$ 59.8
	Capital Transfers Out to GFAR	2.4	2.4	1.6	1.1	1.1	1.1	1.1	1.1
	1/2 of Measure G Proceeds to Capital	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7
	Fund	0.4	0.7	-	-	-	-	-	-
AMOUNTS AVAILABLE FOR RESERVE ALLOCATIONS		-	5.7	-	-	-	-	-	-
	Recovery	-	-	-	-	-	-	-	-
TOTAL EXPENDITURES & RESERVE ALLOCATIONS		\$ 54.9	\$ 63.1	\$ 54.5	\$ 55.1	\$ 56.4	\$ 58.1	\$ 59.6	\$ 61.6
NET REVENUES RESERVE TRANSFERS LESS EXPENDITURES & RESERVE ALLOCATIONS FOR FINAL ALLOCATION AFTER YEAR END CLOSE		\$ -0.5	\$ 1.6	\$ -	\$ (3.0)	\$ (2.8)	\$ (3.1)	\$ (3.3)	\$ (3.8)
* Due to rounding of individual categories FY 2022/23 Estimated Total Expenditures and Reserve Allocations includes \$0.1 million. General Fund (111) Forecast does not include Pension Trust activities.									

The following table illustrates the previous projected deficits relative to the updated Forecast.

Original 5 Year Forecast	2024/25 Forecast (\$M)	2025/26 Forecast (\$M)	2026/27 Forecast (\$M)	2027/28 Forecast (\$M)	2028/29 Forecast (\$M)
Proposed Surplus/Deficit	(\$3.1)	(\$2.8)	(\$3.2)	(\$3.5)	(\$4.0)
Adopted Surplus/Deficit	(\$3.0)	(\$2.8)	(\$3.1)	(\$3.3)	(\$3.8)

ORDINANCE 2274

AN ORDINANCE OF THE PEOPLE OF THE TOWN OF LOS GATOS, CALIFORNIA IMPOSING A GENERAL TRANSACTIONS AND USE TAX FOR A PERIOD OF TWENTY YEARS

WHEREAS, Town of Los Gatos residents have indicated that the quality of life in Los Gatos is highly valued; and

WHEREAS, the Town of Los Gatos has over \$70 Million in unmet infrastructure needs for projects such as pothole, street, and road repair, the proper maintenance of which are important to maintaining local property values and quality of life; and

WHEREAS, the Town seeks to not only maintain, but enhance neighborhood police patrols and local crime prevention programs, both of which are priorities identified by the public; and

WHEREAS, the Town also seeks to improving traffic flow to reduce traffic congestion; and

WHEREAS, repairing potholes and maintaining Los Gatos' streets, roads, and sidewalks so they do not deteriorate further and become even more costly to fix in the future has been a longstanding objective of the Town; and

WHEREAS, locally-enacted funding sources such as a voter-approved sales tax are not subject to seizure by the State, and must be spent in Los Gatos to maintain its local services; and

WHEREAS, the proposed measure imposes an unrestricted general sales tax that can be used for any legitimate governmental purpose and it is not a commitment to any particular action; and

WHEREAS, the proposed measure requires Independent Citizens Oversight and mandatory financial audits to ensure funds are spent in furtherance of Town objectives to enhance local services and the quality of life in the Town, and yearly reports to the community to ensure funds are spent as promised and would sunset in 20 years; and

WHEREAS, under the provisions of the laws relating to general law cities in the State of California, an election shall be held on November 6, 2018, for the submission to the voters of a question relating to a local one-eighth-cent (0.125%) sales tax; and

WHEREAS, it is desirable that the election be consolidated with the statewide election to be held on the same date, and that within the Town, the precincts, polling places, and election officers of the two elections be the same.

NOW THEREFORE, THE PEOPLE OF THE TOWN OF LOS GATOS DO ORDAIN AS FOLLOWS:

SECTION 1. INCORPORATION OF RECITALS. The People of Los Gatos, subject to voter approval, find that all Recitals are true and correct and incorporate them herein by this reference.

SECTION 2. AMENDMENT OF MUNICIPAL CODE. Chapter 2.60, Transactions and Use Tax, of the Los Gatos Town Code, is hereby added to read as follows:

Sec. 2.60.010. Title.

This ordinance shall be known as the Los Gatos Transactions and Use Tax Ordinance. The Town of Los Gatos hereinafter shall be called "Town." This ordinance shall be applicable in the incorporated territory of the Town.

Sec. 2.60.020. Operative Date.

"Operative Date" means the first day of the first calendar quarter commencing more than 110 days after the adoption of this ordinance, the date of such adoption being as set forth below.

Sec. 2.60.030. Purpose.

This ordinance is adopted to achieve the following, among other purposes, and directs that the provisions hereof be interpreted in order to accomplish those purposes:

A. To impose a retail transactions and use tax in accordance with the provisions of Part 1.6 (commencing with Section 7251) of Division 2 of the Revenue and Taxation Code and Section 7285.9 of Part 1.7 of Division 2 which authorizes the Town to adopt this tax ordinance which shall be operative if a majority of the electors voting on the measure vote to approve the imposition of the tax at an election called for that purpose.

B. To adopt a retail transactions and use tax ordinance that incorporates provisions identical to those of the Sales and Use Tax Law of the State of California insofar as those provisions are not inconsistent with the requirements and limitations contained in Part 1.6 of Division 2 of the Revenue and Taxation Code.

C. To adopt a retail transactions and use tax ordinance that imposes a tax and provides a measure therefore that can be administered and collected by the California Department of Tax and Fee Administration in a manner that adapts itself as fully as practicable to, and requires the least possible deviation from, the existing statutory and administrative procedures followed by the California Department of Tax and Fee Administration in administering and collecting the California State Sales and Use Taxes.

D. To adopt a retail transactions and use tax ordinance that can be administered in a manner that will be, to the greatest degree possible, consistent with the provisions of Part 1.6 of

Division 2 of the Revenue and Taxation Code, minimize the cost of collecting the transactions and use taxes, and at the same time, minimize the burden of record keeping upon persons subject to taxation under the provisions of this ordinance.

E. To provide transactions and use tax revenue to the Town to be used to fund general revenue purposes.

Sec. 2.60.040. Contract with State.

Prior to the operative date, the Town shall contract with the California Department of Tax and Fee Administration to perform all functions incident to the administration and operation of this transactions and use tax ordinance; provided, that if the Town shall not have contracted with the California Department of Tax and Fee Administration prior to the operative date, it shall nevertheless so contract and in such a case the operative date shall be the first day of the first calendar quarter following the execution of such a contract.

Sec. 2.60.050. Transactions Tax Rate.

For the privilege of selling tangible personal property at retail, a tax is hereby imposed upon all retailers in the incorporated territory of the Town at the rate of one-eighth of one percent of the gross receipts of any retailer from the sale of all tangible personal property sold at retail in said territory on and after the operative date of this ordinance.

Sec. 2.60.060. Place of Sale.

For the purposes of this ordinance, all retail sales are consummated at the place of business of the retailer unless the tangible personal property sold is delivered by the retailer or his agent to an out-of-state destination or to a common carrier for delivery to an out-of-state destination. The gross receipts from such sales shall include delivery charges, when such charges are subject to the state sales and use tax, regardless of the place to which delivery is made. In the event a retailer has no permanent place of business in the State or has more than one place of business, the place or places at which the retail sales are consummated shall be determined under rules and regulations to be prescribed and adopted by the California Department of Tax and Fee Administration.

Sec. 2.60.070. Use of Tax Rate.

An excise tax is hereby imposed on the storage, use or other consumption in the Town of tangible personal property purchased from any retailer on and after the operative date of this ordinance for storage, use or other consumption in said territory at the rate of one-eighth of one percent (0.125%) of the sales price of the property. The sales price shall include delivery charges when such charges are subject to state sales or use tax regardless of the place to which delivery is made.

Sec. 2.60.080. Adoption of Provisions of State Law.

Except as otherwise provided in this ordinance and except insofar as they are inconsistent with the provisions of Part 1.6 of Division 2 of the Revenue and Taxation Code, all of the provisions of Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code are hereby adopted and made a part of this ordinance as though fully set forth herein.

Sec. 2.60.090. Limitations of Adoption of State Law and Collection of Use Tax.

In adopting the provisions of Part 1 of Division 2 of the Revenue and Taxation Code:

A. Wherever the State of California is named or referred to as the taxing agency, the name of this Town shall be substituted therefor. However, the substitution shall not be made when:

1. The word "State" is used as a part of the title of the State Controller, State Treasurer, State Treasury, the California Department of Tax and Fee Administration or the Constitution of the State of California;

2. The result of that substitution would require action to be taken by or against this Town or any agency, officer, or employee thereof rather than by or against the California Department of Tax and Fee Administration or the State Board of Equalization, in performing the functions incident to the administration or operation of this Ordinance.

3. In those sections, including, but not necessarily limited to sections referring to the exterior boundaries of the State of California, where the result of the substitution would be to:

a. Provide an exemption from this tax with respect to certain sales, storage, use or other consumption of tangible personal property which would not otherwise be exempt from this tax while such sales, storage, use or other consumption remain subject to tax by the State under the provisions of Part 1 of Division 2 of the Revenue and Taxation Code, or;

b. Impose this tax with respect to certain sales, storage, use or other consumption of tangible personal property which would not be subject to tax by the state under the said provision of that code.

4. In Sections 6701, 6702 (except in the last sentence thereof), 6711, 6715, 6737, 6797 or 6828 of the Revenue and Taxation Code.

B. The word "Town" shall be substituted for the word "State" in the phrase "retailer engaged in business in this State" in Section 6203 and in the definition of that phrase in Section 6203.

Sec. 2.60.100. Permit Not Required.

If a seller's permit has been issued to a retailer under Section 6067 of the Revenue and Taxation Code, an additional transactor's permit shall not be required by this ordinance.

Sec. 2.60.110. Exemptions and Exclusions.

A. There shall be excluded from the measure of the transactions tax and the use tax the amount of any sales tax or use tax imposed by the State of California or by any town, city and county, or county pursuant to the Bradley-Burns Uniform Local Sales and Use Tax Law or the amount of any state-administered transactions or use tax.

B. There are exempted from the computation of the amount of transactions tax the gross receipts from:

1. Sales of tangible personal property, other than fuel or petroleum products, to operators of aircraft to be used or consumed principally outside the county in which the sale is made and directly and exclusively in the use of such aircraft as common carriers of persons or property under the authority of the laws of this State, the United States, or any foreign government.

2. Sales of property to be used outside the Town which is shipped to a point outside the Town, pursuant to the contract of sale, by delivery to such point by the retailer or his agent, or by delivery by the retailer to a carrier for shipment to a consignee at such point. For the purposes of this paragraph, delivery to a point outside the Town shall be satisfied:

a. With respect to vehicles (other than commercial vehicles) subject to registration pursuant to Chapter 1 (commencing with Section 4000) of Division 3 of the Vehicle Code, aircraft licensed in compliance with Section 21411 of the Public Utilities Code, and undocumented vessels registered under Division 3.5 (commencing with Section 9840) of the Vehicle Code by registration to an out-of-Town address and by a declaration under penalty of perjury, signed by the buyer, stating that such address is, in fact, his or her principal place of residence; and

b. With respect to commercial vehicles, by registration to a place of business out-of-Town and declaration under penalty of perjury, signed by the buyer, that the vehicle will be operated from that address.

3. The sale of tangible personal property if the seller is obligated to furnish the property for a fixed price pursuant to a contract entered into prior to the operative date of this ordinance.

4. A lease of tangible personal property which is a continuing sale of such property, for any period of time for which the lessor is obligated to lease the property for an amount fixed by the lease prior to the operative date of this ordinance.

5. For the purposes of subparagraphs (3) and (4) of this section, the sale or lease of tangible personal property shall be deemed not to be obligated pursuant to a contract or lease for any period of time for which any party to the contract or lease has the unconditional right to terminate the contract or lease upon notice, whether or not such right is exercised.

C. There are exempted from the use tax imposed by this ordinance, the storage, use or other consumption in this Town of tangible personal property:

1. The gross receipts from the sale of which have been subject to a transactions tax under any state-administered transactions and use tax ordinance.

2. Other than fuel or petroleum products purchased by operators of aircraft and used or consumed by such operators directly and exclusively in the use of such aircraft as common carriers of persons or property for hire or compensation under a certificate of public convenience and necessity issued pursuant to the laws of this State, the United States, or any foreign government. This exemption is in addition to the exemptions provided in Sections 6366 and 6366.1 of the Revenue and Taxation Code of the State of California.

3. If the purchaser is obligated to purchase the property for a fixed price pursuant to a contract entered into prior to the operative date of this ordinance.

4. If the possession of, or the exercise of any right or power over, the tangible personal property arises under a lease which is a continuing purchase of such property for any period of time for which the lessee is obligated to lease the property for an amount fixed by a lease prior to the operative date of this ordinance.

5. For the purposes of subparagraphs (3) and (4) of this section, storage, use, or other consumption, or possession of, or exercise of any right or power over, tangible personal property shall be deemed not to be obligated pursuant to a contract or lease for any period of time for which any party to the contract or lease has the unconditional right to terminate the contract or lease upon notice, whether or not such right is exercised.

6. Except as provided in subparagraph (7), a retailer engaged in business in the Town shall not be required to collect use tax from the purchaser of tangible personal property, unless the retailer ships or delivers the property into the Town or participates within the Town in making the sale of the property, including, but not limited to, soliciting or receiving the order, either directly or indirectly, at a place of business of the retailer in the Town or through any representative, agent, canvasser, solicitor, subsidiary, or person in the Town under the authority of the retailer.

7. "A retailer engaged in business in the Town" shall also include any retailer of any of the following: vehicles subject to registration pursuant to Chapter 1 (commencing with Section 4000) of Division 3 of the Vehicle Code, aircraft licensed in compliance with Section 21411 of the Public Utilities Code, or undocumented vessels registered under Division 3.5 (commencing

with Section 9840) of the Vehicle Code. That retailer shall be required to collect use tax from any purchaser who registers or licenses the vehicle, vessel, or aircraft at an address in the Town.

D. Any person subject to use tax under this ordinance may credit against that tax any transactions tax or reimbursement for transactions tax paid to a district imposing, or retailer liable for a transactions tax pursuant to Part 1.6 of Division 2 of the Revenue and Taxation Code with respect to the sale to the person of the property the storage, use or other consumption of which is subject to the use tax.

Sec. 2.60.120. Amendments.

All amendments subsequent to the effective date of this ordinance to Part 1 of Division 2 of the Revenue and Taxation Code relating to sales and use taxes and which are not inconsistent with Part 1.6 and Part 1.7 of Division 2 of the Revenue and Taxation Code, and all amendments to Part 1.6 and Part 1.7 of Division 2 of the Revenue and Taxation Code, shall automatically become a part of this ordinance, provided however, that no such amendment shall operate so as to affect the rate of tax imposed by this ordinance.

Sec. 2.60.130. Enjoining Collection Forbidden.

No injunction or writ of mandate or other legal or equitable process shall issue in any suit, action or proceeding in any court against the State or the Town, or against any officer of the State or the Town, to prevent or enjoin the collection under this ordinance, or Part 1.6 of Division 2 of the Revenue and Taxation Code, of any tax or any amount of tax required to be collected.

Sec. 2.60.140. Citizens' oversight and annual audit.

A. There shall be a committee appointed by the Town Council to review and report on the receipt of revenue and expenditure of funds from the tax authorized by this chapter ("revenues and expenditures"). The number, qualifications and duties of Committee members shall be established by ordinance or resolution of the Town Council.

B. Beginning with the fiscal year that ends June 30, 2019, the Town's independent auditors shall, as part of their annual audit of the Town's financial statements, review the collection and expenditure of revenue from the tax authorized by this chapter. The auditors' review shall be a public document. The committee shall annually review the auditors' findings and report in writing to the Town Council regarding the auditors' findings regarding the revenues and expenditures. The committee's statement shall be transmitted to the Town Council for consideration at a public meeting.

C. By January 31, 2019, the Town Council shall adopt a resolution establishing the composition of the committee and further defining its responsibilities consistently with this section. Provisions defining the scope of committee responsibilities and reporting requirements shall address bond oversight, in the event that a decision is made at a later time to sell bonds that are in part backed by the revenues referenced in this section. The Town Council shall appoint the initial members of the committee no later than March 1, 2019.

Sec. 2.60.150. Termination Date.

The authority to levy the tax imposed by this chapter shall automatically expire on March 31, 2039, without further action by the Town Council or the voters of the Town. After said date, the tax imposed by this Chapter can only be continued or reestablished by a majority vote of Los Gatos voters.

SECTION 3. ADJUSTMENT OF APPROPRIATIONS LIMIT. Pursuant to Article XIIIB of the Constitution of the State of California and applicable laws, the appropriations limit for the Town is hereby increased by the aggregate sum authorized to be levied by this tax for fiscal year 2018-2019 and each year thereafter.

SECTION 4. COMPLIANCE WITH THE CALIFORNIA ENVIRONMENTAL QUALITY ACT. The approval of this ordinance is exempt from the California Environmental Quality Act (Public Resources Code §§ 21000 et seq., "CEQA," and 14 Cal. Code Reg. §§ 15000 et seq., "CEQA Guidelines"). This ordinance imposes a general tax that can be used for any legitimate governmental purpose; it is not a commitment to any particular action. As such, under CEQA Guidelines section 15378(b)(4), the ordinance is not a "project" within the meaning of CEQA because it creates a government funding mechanism that does not involve any commitment to any specific project that may result in a potentially significant physical impact on the environment. If revenue from the tax were used for a purpose that would have either such effect, the Town would undertake the required CEQA review for that project. Therefore, pursuant to CEQA Guidelines section 15060, CEQA analysis is not required.

SECTION 5. SEVERABILITY. If any provision of this ordinance or the application thereof to any person or circumstance is held invalid, the remainder of the ordinance and the application of such provision to other persons or circumstances shall not be affected thereby.

SECTION 6. EFFECTIVE DATE. This ordinance relates to the levying and collecting of the Town transactions and use taxes and shall take effect immediately.

SECTION 7. NOTICE. Upon approval by the voters, the Town Clerk Administrator shall certify to the passage and adoption of this Ordinance and shall cause it to be published according to law.

* * * * *

It is hereby certified that this Ordinance was duly adopted by the voters at the November 6, 2018 Election and took effect 10 days following adoption of a resolution declaring the results of the election at a regular meeting of the Town Council held on the 18th day of December 2018 by the following vote:

COUNCIL MEMBERS:

AYES: Marcia Jensen, Rob Rennie, Marico Sayoc, Mayor Steven Leonardis

NAYS: Barbara Spector

ABSENT: None.

ABSTAIN: None.


SIGNED:



MAYOR OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 12.21.18

ATTEST:



TOWN CLERK OF THE TOWN OF LOS GATOS
LOS GATOS, CALIFORNIA

DATE: 12-21-18



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 12/19/2023

ITEM NO: 19

DATE: December 11, 2023
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review the Revenue Modeling Report Prepared by NBS and Provide Direction on Any Ballot Measures to Consider for Polling.

RECOMMENDATION:

Review the revenue modeling report prepared by NBS and provide direction on any ballot measures to consider for polling.

BACKGROUND:

While costs of providing services and programs for residents have significantly increased over the years, Town revenues have not kept pace. Los Gatos is facing the same economic pressures as many other cities and businesses, including inflation and the uneven recovery from the pandemic. In addition, unfunded mandates by the State have also reduced the Town's available funds.

Los Gatos has taken the following proactive cost-cutting measures during major economic downturns to reduce budget expenditures and control costs while maintaining high service levels:

- Reduced full-time employees by 15% (since 2001) and did not return to pre-recession staffing levels,
- Imposed wage freezes and unpaid furloughs, and
- Reduced employee benefit costs.

Town budgets are reviewed annually by an independent auditor. Los Gatos has earned recognition for its fiscal responsibility with the highest credit rating (AAA bond rating by Moody's) and annual awards by the Government Finance Officers Association for its high quality and transparent budgeting practices.

PREPARED BY: Katy Nomura
Assistant Town Manager

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

BACKGROUND (Continued):

The Town faces a budget deficit of \$3 to \$4 million per year for the projected future. On May 17, 2022, Council acknowledged the Finance Commission's finding that a structural financial deficit exists and requested recommendations on how to cure the deficit.

On November 17, 2022, the Finance Commission reviewed several cost reductions measures and recommended that the Town further work toward operational efficiencies and researching additional revenue options.

On January 24, 2023, the Town Council determined its Strategic Priorities for 2023-2025, which included exploring new revenue opportunities and addressing the forecasted deficit.

In addition to cost containment over the years, the Town has also added the following revenues in an incremental and diversified way:

- November 2016 Measure T increased the Transient Occupancy Tax (TOT) from 10 percent to 12 percent. The 2% increase raises approximately \$400,000 annually in additional revenue.
- November 2018 Measure G creates a 1/8-cent dedicated district sales tax for a 20-year period. The adoption of the dedicated tax provides approximately \$1,000,000 annually in additional revenue.
- In February 2019, Council approved an Ordinance allowing regulated short-term rentals subject to TOT. Approximately \$80,000 of additional TOT is collected annually.
- In June 2019, Council voted to annex 24 unincorporated County pockets. This action results in approximately \$1,000,000 in property taxes remaining in the Town instead of being diverted to the County.
- November 2022 Measure J increased business license taxes for the first time since 1991, raising approximately \$1,100,000 annually in additional revenue.

In an effort to explore new revenue opportunities to address the forecasted deficits, the Town may want to consider a revenue ballot measure in 2024. On June 20, 2023, the Town Council authorized the Town Manager to issue a Request for Qualifications (RFQ) for revenue ballot measure consulting services. After conducting the RFQ process, the Town selected NBS.

On October 17, 2023, Council authorized the Town Manager to enter into an agreement for the initial phase of the work for amount not to exceed \$44,600, with direction to return to Council with revenue modeling prior to beginning any polling.

There was also a request to review efficiencies, cost reduction measures, and the Annual Comprehensive Financial Report (ACFR). An extensive overview of efficiencies was reviewed by Council on August 16, 2022, and staff continues to implement efficiency improvements to address increased workloads, new State unfunded mandates, and

BACKGROUND (Continued):

little to no increases in headcount, without reducing the high quality of work product, internal controls, or the high level of customer service the Los Gatos community expects of the Town. The Town does not have the staff capacity to quantify cost savings associated with these efficiencies and continue to provide expected municipal services.

As described earlier, cost reduction measures were considered by the Finance Commission on November 17, 2022. Another item on this agenda presents the draft ACFR for Council's receipt. It is important to note that the surplus at the close of Fiscal Year 2022/23 represents one-time funds.

DISCUSSION:

NBS conducted a comprehensive evaluation of options to increase revenue for the Town and associated revenue modeling, with the goal of reducing the forecasted annual budget deficits ranging from \$2.8 million in Fiscal Year (FY) 2025/26 to \$3.8 million in FY 2028/29. This included an evaluation of a property transfer tax increase, utility user tax (UUT), special assessment districts, transient occupancy tax (TOT), business license tax, sales tax, and parcel tax scenarios. Each of these options is outlined in NBS' revenue modeling report (Attachment 1). Of the options, NBS recommended either a sales tax or a parcel tax.

Sales Tax

As mentioned in the NBS report, "the current sales tax rate in the Town is 9.25%, of which the Town's share is 1% (not including the Measure G sales tax rate of 0.125%). The Town has the capacity to raise its sales tax rate by an additional 0.125%...If structured as a general sales tax, the Town would only need to secure approval from a majority of the registered voters within the Town to increase the sales tax rate. NBS recommends that the Town move quickly on this option, if desired, as the Town's remaining capacity for a sales tax increase could be utilized by another government agency within the County during the next election cycle." An 1/8-cent sales tax increase would not necessarily cover the Town's ongoing budget deficit but would serve as a good first step.

The following table shows NBS' revenue modeling for FY 2025/26 through FY 2028/29:

Potential Sales Tax Increase	Potential New Total Sales Tax %	Additional Revenue 2025/26 Projected	Additional Revenue 2026/27 Projected	Additional Revenue 2027/28 Projected	Additional Revenue 2028/29 Projected
0.125%	9.375%	\$ 1,062,500	\$ 1,087,500	\$ 1,125,000	\$ 1,162,500

Parcel Tax

According to NBS, "the parcel tax option is the only reliable way to correct the Town's projected deficits with one funding mechanism, however attaining two-thirds approval from voters at the rates that meet that objective may be difficult."

DISCUSSION (Continued):

NBS explored revenue modeling for a parcel tax without senior/low-income exemptions, a parcel tax with senior/low-income exemptions, and a parcel tax on commercial buildings over 25,000 square feet. For the purposes of this analysis, the following revenue targets were used and are referenced as High, Consensus, Middle, and Low:

Revenue Target	Amount
High	\$ 4,000,000
Consensus	\$ 3,500,000
Middle	\$ 2,000,000
Low	\$ 1,000,000

NBS determined the Consensus Revenue Target to show a target that would conservatively address the forecasted deficit. Staff is not recommending this target for a potential revenue measure. It is presented here for illustrative and discussion purposes only.

The following tables show the illustrative results for each scenario.

A. Parcel Tax without Senior/Low-Income Exemptions

Description	Rate - High	Rate - Consensus	Rate - Mid	Rate - Low
Taxable Parcels - per Parcel	\$ 356.19	\$ 311.67	\$ 178.09	\$ 89.05
Taxable Parcels - per Lot Square Foot	\$ 0.0203	\$ 0.0178	\$ 0.0102	\$ 0.0051
Taxable Parcels - per Building Square Foot	\$ 0.14	\$ 0.12	\$ 0.07	\$ 0.03

Average Annual Taxes on Single-Family and Condo Parcels in the Consensus Revenue Target in the Scenario without the Senior/Low-Income Exemptions:

Average of Parcel Tax - By Parcel	Average of Parcel Tax - By LotSqFt	Average of Parcel Tax - By BldgSqFt
\$ 311.67	\$ 254.10	\$ 262.08

B. Parcel Tax with Senior/Low-Income Exemptions

Description	Rate - High	Rate - Consensus	Rate - Mid	Rate - Low
Taxable Parcels - per Parcel	\$ 390.82	\$ 341.96	\$ 195.41	\$ 97.70
Taxable Parcels - per Lot Square Foot	\$ 0.0219	\$ 0.0192	\$ 0.0110	\$ 0.0055
Taxable Parcels - per Building Square Foot	\$ 0.15	\$ 0.13	\$ 0.07	\$ 0.04

DISCUSSION (Continued):

Average Annual Taxes on Single-Family and Condo Parcels in the Consensus Revenue Target in the Scenario with the Senior/Low-Income Exemptions (note that the average is higher for the non-exempt parcels in order to meet the same Consensus Revenue Target):

Average of Parcel Tax - By Parcel (SLI)	Average of Parcel Tax - By LotSqFt (SLI)	Average of Parcel Tax - By BldgSqFt (SLI)
\$ 341.96	\$ 273.89	\$ 283.18

C. Parcel Tax on Commercial Buildings Over 25,000 Square Feet

Description	Rate - High	Rate - Consensus	Rate - Mid	Rate - Low
Taxable Commercial/Office/Industrial Parcels - per Building Square Foot > 25K	\$ 3.31	\$ 2.90	\$ 1.66	\$ 0.83

Only 35 parcels in the Town have commercial buildings over 25,000 square feet and would be subject to such a parcel tax. For illustrative purposes only, the total annual tax per owner for this scenario at the \$3.5M Consensus Revenue Target would range from approximately \$4,600 to \$612,000.

CONCLUSION AND NEXT STEPS:

Staff looks forward to Council's discussion and direction on which potential revenue measures should be included in a poll. NBS recommends that no more than two options should be polled. Polling is a targeted effort to evaluate whether a potential measure would be viable and would include a small number of likely voters (e.g., 100 to 200 interviews) to obtain statistically valid results. Once polling is completed, staff would provide a summary of the results to the Finance Commission for a recommendation to Council on whether to pursue any of the options. Staff would then return to Council for direction on whether to proceed with any of the options.

If Council decides to proceed, Phase 2 of the contract with NBS would need to be authorized to continue the work. Phase 2 includes public education and outreach, ballot measure language refinement, and a final resolution for the Town Council to place the measure on the 2024 ballot.

COORDINATION:

The preparation of this report was coordinated with the Town Manager, Town Attorney, and Director of Finance.

FISCAL IMPACT:

On October 17, 2023, Council authorized the Town Manager to enter into an agreement for the initial phase of the work for amount not to exceed \$44,600. The cost for polling for potential revenue ballot measures was already included in this amount. After polling is complete, Council will have the option to decide whether to allocate additional funding to pursue placing a measure on the 2024 ballot.

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. NBS Revenue Modeling Report



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 06/05/2018
ITEM NO: 17

DATE: May 29, 2018

TO: MAYOR AND TOWN COUNCIL

FROM: LAUREL PREVITTI, TOWN MANAGER
ROBERT SCHULTZ, TOWN ATTORNEY

SUBJECT: ADOPTION OF A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF LOS GATOS, CALIFORNIA, SUBMITTING A LOCAL GENERAL REVENUE TAX MEASURE TO THE VOTERS AT THE TUESDAY, NOVEMBER 6, 2018 GENERAL MUNICIPAL ELECTION AND INTRODUCTION OF AN ORDINANCE OF THE TOWN OF LOS GATOS, CALIFORNIA IMPOSING A GENERAL TRANSACTIONS AND USE TAX

RECOMMENDATION:

Staff recommends that Town Council accept public comment and then move:

1. For adoption of a Resolution submitting a local general revenue tax measure to the voters at the Tuesday, November 6, 2018 general municipal election; and
2. For the introduction and first reading of an Ordinance, by title only, imposing a general transaction and use tax for a period of twenty years.

BACKGROUND:

On October 4, 2017, December 4, 2018, and February 12, 2018, the Council Finance Committee discussed placing a 1/8 cent general sales tax on the November 2018 ballot and recommended to the Town Council to proceed with preparing a ballot measure to place a 1/8 cent general sales tax on the November 2018 ballot.

On March 6, 2018, the Town Council reviewed the recommendation of the Council Finance Committee and directed staff to move forward with a general tax, and return to Council with ballot language, ordinance, and resolution.

PREPARED BY: ROBERT SCHULTZ
Town Attorney

Reviewed by: Town Manager, Assistant Town Manager, and Finance Director

SUBJECT: ADOPTION OF A RESOLUTION SUBMITTING A LOCAL GENERAL REVENUE TAX MEASURE TO THE VOTERS AND INTRODUCTION OF AN ORDINANCE OF THE TOWN OF LOS GATOS, CALIFORNIA IMPOSING A GENERAL TRANSACTIONS AND USE TAX

MAY 29, 2018

DISCUSSION:

The Town of Los Gatos has a long tradition of fiscal prudence with balanced budgets and development of strategic catastrophic and budgetary emergency reserves. However, despite these efforts the Town has over \$70 million in deferred capital maintenance needs. There is currently inadequate funding to fully address our aging infrastructure needs such as streets, sidewalks, and facilities. In addition, most economists advise that a recession is likely within the next five years. In order for the Town to maintain the high quality base level of services our residents currently enjoy during the next recession and work towards funding deferred maintenance needs, additional revenues will be necessary.

Pursuant to all applicable authority, including the California Constitution and the California Elections Code, the Town Council may place a general tax measure on the ballot for the November 6, 2018 General Municipal Election. Staff has prepared the following ballot language based upon Council's direction at the March 6, 2018 Council meeting:

Shall the measure to fund essential Town services such as maintaining neighborhood police patrols; improving traffic flow to reduce congestion; repairing potholes and fixing neighborhood streets; and maintaining the Town's long-term financial stability, shall a one-eighth cent (\$0.125%) sales tax for 20 years, providing about \$800,000 annually, requiring Independent Citizens Oversight with public review of spending, and all revenues controlled locally be adopted?

Pursuant to State law, the Council must adopt the proposed ordinance corresponding to the measure, and approve the resolution corresponding to that measure. The proposed ordinance safeguards the use of public funds and ensures transparency and accountability. The ordinance requires independent citizens' oversight and annual mandatory financial audits to ensure that all funds are spent as promised. Specifically, the Town Council would be required to appoint a citizens' oversight committee that would meet annually to review expenditures and an external auditor's report on the use of these funds and report independently to the Town Council.

The resolution, if adopted, will submit the Council's ballot measure to voters at the November 6, 2018 regular municipal election. A two-thirds (2/3) vote of the City Council is required to adopt the resolution. A majority vote of the City's qualified voters will be needed to approve the ballot measure if the Council decides to place the general tax on the ballot.

Importantly, funds received from this one-eighth sales tax would be locally generated and therefore could not be taken by the State. By placing this matter on the ballot, the community will have the opportunity to consider a sales tax dedicated solely to the Town.

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SUBJECT: ADOPTION OF A RESOLUTION SUBMITTING A LOCAL GENERAL REVENUE TAX MEASURE TO THE VOTERS AND INTRODUCTION OF AN ORDINANCE OF THE TOWN OF LOS GATOS, CALIFORNIA IMPOSING A GENERAL TRANSACTIONS AND USE TAX

MAY 29, 2018

CONCLUSION:

Council should move for the first reading of the introduction and adoption of the attached Ordinance by title only and move for adoption of the attached Resolution.

FISCAL IMPACT:

If approved by voters in November, a one-eighth cent sales tax would take effect on nearly all taxable transactions in Los Gatos as of April 1, 2019. While a precise estimate of the revenue impact cannot be made, a fairly conservative estimate indicates that a one-eighth cent sales tax would generate approximately \$800,000 annually. These funds would be locally generated and therefore be safe from seizure by the State. In addition, they would enable the Town to invest in services and infrastructure that the community values. Total election costs for the Town for three Council seats and one ballot measure are yet to be determined; however, the cost for two seats and one ballot measure in 2016 was approximately \$120,000. In addition, under the Revenue and Taxation Code section 7272, the Board of Equalization (BOE) will bill a new special taxing jurisdiction for preparatory charges to administer the new district tax based on actual costs after the tax has been submitted by the various BOE units' actual charges. The statutory maximum amount of preparatory costs shall not exceed \$175,000.

Attachments:

1. Draft Resolution
2. Draft Ordinance