



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 05/07/2024

DATE: April 26, 2024
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Review Polling Results, Authorize the Town Manager to Execute an Amendment to the NBS Agreement to Include Phase 2 in the Scope of Services to Prepare a 1/8th Cent Sales Tax Measure for the November 2024 Ballot and Increase the Not to Exceed Amount to \$105,000, and Authorize an Expenditure Budget Adjustment in an Amount of \$60,400 from the Available General Fund Capital/Special Projects Reserve

RECOMMENDATION:

Review polling results, authorize the Town Manager to execute an amendment to the NBS agreement to include Phase 2 in the Scope of Services to prepare a 1/8th cent sales tax measure for the November 2024 Ballot and increase the not to exceed amount to \$105,000 (Attachment 1), and authorize an expenditure budget adjustment in an amount of \$60,400 from the available General Fund Capital/Special Projects Reserve.

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.

The Town maintains a relatively stable and low staffing level. Even so, costs per employee continue to escalate as evidenced by pension benefit costs having increased 35% in the last five years. The Town Council has taken several proactive steps to reduce the Town's pension liability, including Additional Discretionary Payments for the Pension Plans and curbing cost escalation in Other Post-Employment Benefits (OPEB).

PREPARED BY: Katy Nomura
Assistant Town Manager

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

BACKGROUND (continued):

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

- Staffing levels significantly reduced from 2001 – 2005 and have not returned to those levels, despite an increase in population since then, unfunded mandates, and service demands,
- Imposed wage freezes and unpaid furloughs, and
- Reduced employee benefit costs.

Town financials 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.

On November 17, 2022, the Finance Commission reviewed several cost reduction 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.

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

On December 19, 2023, Town Council reviewed the Revenue Modeling Report prepared by NBS and continued the item to February 20, 2024 to consider it at the same time as the five-year forecast.

On February 12, 2024, the Finance Commission discussed the NBS report and recommended that the Town Council not rely upon the NBS Report's conclusions regarding deficit reductions because the financial analysis was based on an outdated 5-Year Forecast which did not include actual results for Fiscal Year 2022/23. The Finance Commission did find that the incremental revenue contribution for the revenue options analyzed are credible and can be used for modeling purposes. While the Commission did not make a motion regarding any potential ballot measure, individual Commissioners questioned the need for it at this time. One

BACKGROUND (continued):

Commissioner expressed that there may or may not be merit to the 1/8th cent tax measure and indicated this was the reason they declined to opine.

On February 13, 2024, the Town Council updated its Strategic Priorities and removed the detailed bullets under “Develop a Five-Year Structurally Balanced and Sustainable Operating Forecast,” including reference to new revenue opportunities.

On February 20, 2024, the Town Council directed staff to proceed with polling to explore a 1/8th cent sales tax. A 1/8th cent sales tax is estimated to result in approximately \$1 million in additional revenue annually.

DISCUSSION:

NBS partnered with Gene Bregman and Associated to conduct the scientific polling. Polling occurred from March 24-27, 2024 and surveyed 200 registered Los Gatos voters. The summary of the polling results will be presented at the Council meeting, including the following conclusions:

- Los Gatos residents are very positive towards their Town, local government, and Departments within local government.
- Maintaining public safety (police services and wildfire prevention) and traffic congestion are of paramount importance to voters.
- Majority of voters are supportive of a 1/8th cent sales tax increase for the Town.
- If the Town captures the remaining 1/8th cent of sales tax capacity available to Los Gatos, 100% of the funds would remain in Los Gatos.
- Not claiming the remaining sales tax capacity means a County entity could capture the 1/8th cent and raise sales tax for Los Gatos with potentially little benefit to the Town.

The Finance Commission had the option to consider the polling results at its May 6, 2024 meeting prior to Council consideration. The Finance Commission Chairperson preferred to focus the meeting on the proposed Fiscal Year 2024/25 Budget and referenced that the Commission discussed potential polling and revenue measures on February 12, 2024. A summary of the February 12, 2024 discussion can be found in the Background section of this report.

If Council authorizes Phase 2 of the NBS agreement, the consultant will prepare public education and outreach, refine ballot measure language, and draft a resolution for the Town Council to place the measure on the 2024 ballot. It is worth noting that a super majority of Council (4/5) is required to place a measure on the 2024 ballot.

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SUBJECT: Revenue Ballot Measure Polling Results

DATE: April 26, 2024

CONCLUSION:

Staff looks forward to Council's discussion and direction on whether to pursue a 1/8th cent sales tax measure. If a measure is pursued, final ballot measure language and a resolution to place the measure on the November 2024 ballot would return to Council in June to meet the August 9, 2024 submittal deadline to the Santa Clara County Registrar of Voters.

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 proposed amendment would bring the total not to exceed amount for the contract to \$105,000 and require an expenditure budget adjustment of \$60,400 from the Available General Fund Capital/Special Projects Reserve. The cost of placing a measure on the 2024 general election ballot is estimated to cost approximately \$60,000. If a measure is pursued, the \$60,000 expenditure budget adjustment would be requested when the Council considers the resolution to place the measure on the ballot.

If a 1/8th cent sales tax measure is successful, it is estimated to generate \$1 million in additional revenue for the Town annually.

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. Draft Amendment to NBS Agreement