



TOWN OF LOS GATOS
TOWN COUNCIL REPORT

MEETING DATE: 01/20/2026

ITEM NO: 18

DATE: January 20, 2026
TO: Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: Discussion, consideration, and Possible Action to Provide Direction on Revenue Measure Options and Next Steps Including Engaging Professional Services to Support the Evaluation Effort in an amount Not to Exceed \$80,000

RECOMMENDATION:

Staff recommends that the Town Council consider:

1. Authorizing the Town Manager, or designee, to pursue special legislative authorization from the State Legislature in the 2026 session to exempt Los Gatos from the statewide 2 percent combined district sales tax cap, preserving the Town's legal ability to place a general transactions and use (sales) tax measure on the November 2026 ballot.
2. Authorizing the Town Manager, or designee, to engage specialized professional consultants to facilitate special legislative authority to preserve the option for a transactions and use tax and to engage other such professionals to properly inform the Town Council regarding a possible revenue measure not limited to a transaction and use tax for work up to and including potential action related to that specific measure.
3. Allocate \$80,000 from the General Fund unassigned fund balance for professional services to continue work related to a possible revenue measure that the Town Council may consider for the November 2026 election.

FISCAL IMPACT:

The estimated cost is \$80,000 for professional services to preserve the Town's ability to consider a future revenue measure. The allocation may need to be increased depending on the type of measure, approach, and steps required to implement any Council-identified measure.

STRATEGIC PRIORITIES:

One of the top three 2025-2027 Strategic Priorities includes ensuring "...*prudent financial*

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management to result in structurally balanced five-year forecasts and fully funded five-year Capital Improvement Plans, managing liabilities such as pension costs and leveraging the Town's assets, efficiencies, partnerships, and revenue streams. Define and implement a cohesive deferred capital improvement program for Town facilities and lifecycle assets. (Goal: Fiscal Stability)"

BACKGROUND:

The Town of Los Gatos is recognized as a safe, attractive, and welcoming community with high-quality public amenities and a strong overall quality of life. Over many years, residents, businesses, and visitors have benefited from well-maintained streets and parks, vibrant downtown activity, responsive public safety services, and programs that reflect the Town's small-town character and unique sense of place.

Continued reliance on economically sensitive revenues and expenditure assumptions that are not assured creates risk

Recent financial results show that the Town closed Fiscal Year 2024-25 with an increase in General Fund unassigned fund balance. However, a review of the updated Five-Year Forecast (**Attachment 1**) indicates this outcome was driven largely by variable increases, which are not indicative of sustainable structural balance over the long term.

On the revenue side, the surplus relied heavily on interest income, which surged to \$3.1 million in FY 2024-25 due to market conditions but is projected to drop to \$1.6 million in FY 2025-26 and further to \$1.1 million by FY 2027-28. Additionally, the Town faces specific risks, such as a projected \$0.4 million decline in Transient Occupancy Tax in FY 2026-27 due to a specific hotel closure, and stagnating Property Tax estimates, which assume zero growth between FY 2025-26 and FY 2026-27.

On the expenditure side, FY 2024-25 salary actuals (\$22.4 million) were artificially low due to significant vacancy savings. With limited restrictions on hiring and overtime, salary costs could rise to \$25.4 million, a \$3.0 million increase, if full staffing or increases in overtime occur. Another Bay Area city is currently experiencing this condition, resulting in critical impacts on fiscal stability, necessitating layoffs and service reductions. Other cities are grappling with significant deficits and considering how to best close their funding gaps. Thus, Los Gatos is not alone.

For the FY 2025-26 budget, Town staff and the Finance Commission strengthened the accuracy of revenue and expenditure assumptions. In this detailed review, the Town approved a budget that included reductions but still relied upon \$0.9 million in the use of unassigned fund balance. The purpose of planning the use of fund balance is to ensure reductions to key programming do not occur until a deficit is actually incurred. During the year, additional appropriations increased the projected operational deficit to \$1.1 million for FY 2025-26.

Recent fund balance growth should not be interpreted as evidence that the Town's long-term revenue structure is sufficient to sustain current service levels. While the Town has not needed to dip significantly into reserve balances yet, reliance on one-time or volatile activity that does not ensure structurally balanced future budgets, combined with not fully accounting for increasing personnel costs and future capital and deferred maintenance needs, creates risk. Should economic dynamics change, the Town would face the need to quickly reduce expenditures with little lead time. Additionally, the halting of transfers for capital projects limits the ability to address accumulating infrastructure needs.

The Town is currently undertaking financial and fiscal impact analysis studies, which will provide a more refined outlook and Ten-year forecast leading up to a final report in April/May 2026. While the Town Council can wait for the results of these studies, it may lose the ability to respond this calendar year with some options to reduce the impact on programs, services, and capital projects.

Capital and Operational Needs far outpace available and projected revenues

While the Town is not facing an immediate cash flow crisis, it faces a growing structural gap between available resources and the costs required to maintain aging infrastructure, meet emergency preparedness expectations, and modernize facilities. Without identifying new, reliable sources of funding, the Town cannot address significant obligations that are not fully captured in the annual operating budget.

Recent staff reports and condition assessments have quantified the magnitude of these unfunded liabilities. As detailed in Table 1 below, when escalating known maintenance and capital needs to 2025 dollars (at a 4% adjustment), the Town faces over \$300 million in one-time unfunded liabilities, in addition to significant ongoing operational costs for wildfire safety.

Table 1: Summary of Unfunded Capital and Operational Needs (Escalated to 2025)

Category	Specific Need	Estimated Cost (2025)
Streets & Roads	Pavement & Infrastructure	\$172,678,480
Public Safety	New Police Ops Building / EOC	\$50.4M – \$66.0M
Parks & Assets	Parks Deferred Maintenance	\$29,316,560
Park Rehabilitation	Soccer Field Turf Rehab	~\$2,500,000
Storm Drains	Drainage Infrastructure	\$24,051,560
Town Facilities	Building Maintenance & Repairs and Capital	\$22,639,670
Wildfire	Critical Infrastructure	\$6.0M – \$11.0M
Wildfire Operations	Comprehensive Wildfire Program	\$2.1M – \$3.0M

Note: IT Needs identified in previous assessments (\$310,000) have been funded in the 25/26 cycle and are removed from this list.

Assessment of Service Gaps

Streets, Roads, and Storm Drains

The Town's infrastructure needs constitute the largest financial liability. Escalated to 2025 costs, the Capital Infrastructure Needs assessment identifies approximately \$172.7 million in unfunded needs for streets and roads. Additionally, storm drainage improvements now total over \$24 million. This includes critical drainage infrastructure on major thoroughfares like Los Gatos-Almaden Road and essential improvements required to prevent system failures.

Public Safety Facilities

The Police Operations Building (POB) and the Civic Center require significant investment. The POB currently forces split operations that create inefficiencies and is stretched to meet current security standards. A study is underway to evaluate consolidating all Police Department staff into one building, with results expected in spring 2026. Preliminary information suggests 28,000 to 30,000 square feet of space is needed to support the Department and a modern Emergency Operations Center. The cost of constructing this facility is estimated between \$50.4 million and \$66 million (\$1,800–\$2,200 per sq. ft.), exclusive of land acquisition.

Parks and Public Assets

Unfunded needs for Town parks, escalated to 2025, are estimated at \$29.3 million. This backlog impacts community staples, including playground replacements at Oak Meadow Park and La Rinconada Park, irrigation system replacements, and trail connectivity projects. Furthermore, this assessment does not account for the approximate \$2.5 million necessary to rehabilitate soccer field turf that has reached its end of life, nor does it include the benefits of increasing tree and park strip improvements in residential and commercial areas.

Town Facilities and Deferred Maintenance

Town-owned buildings face a combined maintenance and capital shortfall of nearly \$22.6 million (\$21.1 million in deferred maintenance and \$1.5 million in capital needs) over the next 11 years. It is important to note that these figures represent the cost to maintain current operations and generally do not include necessary modernization or expansions.

Wildfire Mitigation and Emergency Preparedness

Beyond capital infrastructure, the Town faces ongoing operational gaps. As outlined in the December 16, 2025, staff report, implementing a "Comprehensive Program" (Scenario 3) to adequately address wildfire risks requires an annual operating investment of approximately \$2.1 to \$3.0 million. This is in addition to \$6 to \$11 million in one-time capital costs over the next 5 to 10 years for critical infrastructure such as evacuation route widening and strategic fuel breaks.

Many of these items represent proactive investments intended to reduce long-term risk and liability, rather than discretionary enhancements. Absent additional ongoing revenue, addressing these unfunded needs requires continued deferral.

Community Priorities and Service Sustainability

Results from the 2025 Community Survey indicate that Los Gatos residents rate the Town very highly in areas that most directly shape quality of life, safety, and community character. Residents expressed particularly strong satisfaction with Town library services, parks and recreation facilities, and police services. However, the survey also highlights that residents place the greatest importance on maintaining these outcomes over time.

The community investment areas with the highest levels of resident support include maintaining streets, sidewalks, and storm sewer systems, improving traffic flow, maintaining 911 response times, and strengthening disaster preparedness. The responses suggest that while satisfaction remains high, targeted investment in transportation, pedestrian safety, and emergency preparedness is necessary to maintain resident confidence. Ensuring the ability to sustain high-performing core services and responsibly address identified and emerging needs will require reliable, ongoing funding aligned with these community expectations. Current budget capability does not provide sufficient resources to fully address the needs identified in the community survey.

Strategic Positioning: Preserving Options and Preparing for the Future

The preceding background illustrates that while Los Gatos is currently managing its budget through one-time resources and vacancies, this is not a sustainable long-term strategy given the magnitude of known capital and operational obligations.

It is important to frame the current situation accurately. The Town is not currently in a fiscal emergency that forces the Council to place a measure on the November 2026 ballot as a last resort to avoid immediate insolvency. The Town retains a degree of fiscal stability that allows for thoughtful planning rather than reactive crisis management.

However, relying on the current revenue structure to support future needs creates significant risk. By the time a structural deficit becomes critical, or a major infrastructure failure occurs, it will likely be too late to develop a thoughtful revenue measure to address it. Responsible governance requires that the Council evaluate potential revenue options before the need becomes acute.

The purpose of the current discussion is to ensure the Town does not find itself in a position where it is forced to react to a financial crisis without a plan. By exploring revenue options now, the Council preserves the optionality to act in November 2026 if it deems necessary, or to defer action with a clear understanding of the trade-offs regarding service levels and deferred maintenance. This proactive approach ensures that if a potential revenue measure is considered in the future, it is not the first time the concept has been vetted.

Accordingly, the following discussion section articulates the specific revenue options available to the Town, along with the timing, feasibility, and strategic considerations for each. This analysis is intended to provide the Council with the necessary information to weigh the benefits of securing additional revenue against the option of maintaining the status quo, ensuring that any future decision is made deliberately and in alignment with long-term community priorities.

On January 12, 2026, the Finance Commission met and reviewed the proposed Town Council staff report and provided support to proceeding with engaging the professional services necessary with funding authority of up to \$80,000 to preserve the Town's ability to consider a revenue measure in November 2026 including special legislative authority for a higher transaction and use tax as well as to consider other potential revenue measure options. The Finance Commission also supported waiting until the results of the financial analysis and impact analysis currently being performed by NHA Advisors prior to deciding on whether to proceed for November 2026.

DISCUSSION:

In the case of addressing deficits, the Town has the option to either 1) increase revenue, 2) decrease expenditures (generally reducing the level of service), 3) reduce the scope of services supportable by available stable revenue (eliminating functions), or 4) implement a combination of all the above.

For FY 2025-26, the Town already included revenue increases, such as higher revenue from agreements such as the Town's contract for police services with Monte Sereno and increases to fees and charges. On the expenditure reduction side, the Town executive staff implemented some internal expenditure reductions, which included the elimination of annual funding for future capital projects. When both were combined, the Town still approved a deficit spending budget, but with a smaller use of reserve fund balance than projections would have necessitated.

On the Capital Improvement side, the Town implemented a tiered schedule for its five-year capital improvement program and reduced the projects programmed. The schedule included three tiers to classify capital projects, which included

- Tier 1 – projects scheduled in a specific year with allocated funding and staff capacity to perform,
- Tier 2 – projects to be considered next when funding and staff capacity are available, and
- Tier 3 – all other projects that are neither scheduled nor considered in the five-year schedule.

In the case of the Town's efforts to reduce the structural deficit, the Town did not consider reducing service levels for the base services, nor do any of the efforts address the multi-million

dollars discussed in the *Additional Capital and Operational Needs* section above or identified through the Town's 2025 community survey.

Town's Primary Ongoing Revenue Sources are Property Tax and Sales Tax Based

The Town's updated Five-Year Forecast demonstrates that the General Fund remains heavily dependent on property-related revenues, with FY 2026-27 projected property tax and Vehicle License Fee backfill totaling approximately \$27.9 million, compared to roughly \$8.4 million in combined sales and use tax and Measure G district tax, confirming that property tax is the Town's single largest revenue source and sales tax is the next largest.

In that same forecast year, other major categories such as transient occupancy tax (about \$2.4 million), business license tax (about \$2.6 million), licenses and permits (about \$6.3 million), and charges for Town services (about \$5.0 million) play important but secondary roles, underscoring that the Town's ability to sustain core services and address long-term obligations will continue to hinge on the performance of these top two revenue streams.

Given the scale and breadth of identified capital, wildfire, and facility needs relative to projected revenues, it is fiscally responsible for the Council to consider options, including a potential Town sales tax measure, a parcel tax, a bond measure, and more targeted tools such as assessment districts or Landscaping and Lighting Districts. Considering these options do not require the Town to pursue a measure in 2026, but they provide the Town with approaches to addressing the projected structural gap for existing activity, as well as for the significant additional capital and operational needs, in addition to the approaches of reducing expenditures by service level reductions or program elimination.

Revenue Measures Require Multiple Steps and Time to Implement with Potential Voter Approval

If the Council wishes to preserve the option of placing any local revenue measure on the November 3, 2026 Santa Clara County consolidated general election ballot, the Town will need to work backwards from the County Registrar of Voters' statutory "E-88" deadline (approximately 88 days before Election Day, in early August 2026) when the Town must adopt its election resolutions and submit the final ballot question, ordinance reference, and impartial analysis request for any measure. Leading up to that date, staff and the Council would need to:

- (1) conduct preliminary study and public outreach in early 2026;
- (2) finalize the proposed revenue mechanism and ballot framework in spring/early summer 2026; and
- (3) complete all required external reviews, including submittal of a transactions and use tax ordinance for California Department of Tax and Fee Administration review in the case of a sales tax, coordination with the County for roll and administration details in

the case of a parcel tax, and preparation of an engineer's report and benefit methodology for any assessment district or Landscaping and Lighting District.

Because each of these steps involves iterative legal, technical, and interagency review, the combined calendar between now and the E-88 submittal date leaves very limited schedule flexibility, meaning that any path to a November 2026 measure, whether sales tax or parcel tax, would need to be pursued on a tight and carefully managed timeline. For an assessment based option, this would be decided by mailed ballots that would be counted as a council meeting of the Town's choosing, not in a general election.

Additional Consideration for Preserving the Ability to Pursue a Meaningful Sales Tax Measure

While any revenue measure will require additional review, staff work, and implementation steps, the State's 2 percent limit on transaction and use tax (sales tax) increases introduces another critical path that can delay or eliminate the Town's ability to meaningfully consider one of two major revenue options. To overcome this limitation, similar to other cities such as Campbell, Pinole, and cities in Solano County did in 2024, the Town would have to seek authority to pursue state legislative change. This additional step requires immediate consideration in order to preserve the Town's ability to consider this option.

Existing Local Sales Tax Authority

The Town of Los Gatos currently receives revenue from the statewide base sales and use tax rate of 7.25 percent, plus voter-approved district taxes (also called transactions and use taxes) applicable in Santa Clara County, including the Town's own one-eighth cent (0.125 percent) local transactions and use tax dedicated to Town purposes. California's Transactions and Use Tax Law imposes a statutory cap that generally limits the combined tax rate of all local transactions and use taxes in a jurisdiction to 2 percent. Once the 2 percent ceiling has been reached in a jurisdiction, neither the county nor a city or special district can impose an additional transactions and use tax in that jurisdiction without first obtaining special enabling legislation from the State Legislature.

Current Sales Tax Rate in Los Gatos

According to the California Department of Tax and Fee Administration (CDTFA), the current combined sales and use tax rate in the Town of Los Gatos is 9.25 percent. This rate reflects the statewide 7.25 percent base rate plus 2.00 percent in countywide and local district taxes, including the Town's 0.125 percent transactions and use tax. Although Santa Clara County voters approved Measure A in November 2025 to add a five-eighths cent (0.625 percent) countywide sales tax, that increase will not take effect until April 1, 2026, so the operative rate in Los Gatos remains 9.25 percent at this time. The Town could still seek a one-eighth cent tax without special legislation to match Milpitas or San Jose, but to seek a tax in the amount needed would exceed the cap and require special legislation similar to Campbell.

Statewide Cap on District Transactions and Use Taxes

Revenue and Taxation Code section 7251.1 establishes a 2 percent combined rate limitation for transactions and use taxes imposed under the Transactions and Use Tax Law in any jurisdiction. In determining whether this 2 percent cap has been reached in a jurisdiction, the California Department of Tax and Fee Administration aggregates all transactions and use taxes in effect within that jurisdiction. In the Town, existing taxes, including the Town's 0.125 percent tax, already use up 1.875 percent (1 $\frac{7}{8}$ %) of the 2 percent limit, which constrains the Town's ability to add further transactions and use taxes under general law to only one-eighth percent. A one-eighth cent sales tax would generate approximately \$1.3 million, while a one-half cent would generate an estimated \$5.2 million.

Need for Special Authorizing Legislation

Because of this statutory cap, any proposal for the Town to place a meaningful transactions and use tax (more than $\frac{1}{8}$ percent) on the ballot would require specific legislative authorization that either (a) allows Los Gatos to levy an additional tax above the 2 percent combined limit, or (b) excludes the Town's new tax from counting against that limit. Absent such authorizing legislation, a Town-sponsored half-cent measure could be challenged as inconsistent with the existing cap, exposing the Town to legal and administrative risk and creating uncertainty for voters and bond or financing markets. Seeking a narrowly tailored or amended bill in the State Legislature would provide the Town with clear legal authority to ask Los Gatos voters to consider a higher local sales tax rate while maintaining consistency with the statewide Transactions and Use Tax Law.

Example of Recent Special Legislation (AB 3259)

Assembly Bill 3259 (Wilson, Chapter 852, Statutes of 2024) provides a recent example of the type of special legislation that can authorize local agencies to exceed the 2 percent cap. AB 3259 added specific chapters to the Revenue and Taxation Code allowing the City of Campbell, the City of Pinole, the County of Solano, and any city within Solano County, by ordinance or by citizens' initiative, to impose a transactions and use tax of up to 0.5 percent that, when combined with existing district taxes, would otherwise exceed the 2 percent countywide limitation. The statute further provides that a tax imposed under this authority "shall not be considered for purposes of the combined rate limitation" in section 7251.1, and includes a sunset date, January 1, 2029, if a local ordinance or initiative has not been approved by voters by that time.

Rationale for Pursuing Similar Authority for Los Gatos

With the Town's current rate at 9.25 percent, it is already almost at the full 2.00 percent in district taxes for purposes of the statutory cap, Los Gatos appears to have a 1/8th cent capacity under general law to add further Town-level transactions and use taxes without special legislation. Once the countywide Measure A increase of 0.625 percent becomes operative on April 1, 2026, the combined rate in Los Gatos will rise further. However, section 7292.5

authorized the County to impose a transactions and use tax of up to 0.625% that would not count against the 2% cap. Thus, the Town still retains some capacity, but any new Town-level tax increment above the 1/8th cents would need to be expressly authorized in statute so that it either (a) is permitted to exceed the cap or (b) is excluded from the cap calculation, as was done for Campbell in AB 3259 and for other jurisdictions in similar special bills.

Pursuing a narrowly tailored or amended bill for Los Gatos would therefore provide the legal mechanism necessary to place a half-cent measure before voters, notwithstanding the countywide cap, mirroring the approach taken in AB 3259 and comparable statutes that recognize unique fiscal circumstances while preserving the requirement that any new tax be approved by the electorate. Engaging a qualified legislative and public finance consultant at this time will allow the Town to: (1) confirm and monitor the status of the countywide rate relative to the 2 percent cap, including the implementation of Measure A; (2) develop bill language modeled on successful prior measures such as AB 3259; and (3) coordinate with legislative offices, regional partners, and CDTFA to ensure that any proposed Town measure is legally valid and administratively feasible.

Discussion of Various Revenue Options for a General Law City

The Town has several lawful options to generate additional local revenues, each with distinct voter-approval thresholds, purposes, and policy trade-offs. Broadly, these tools include a local transactions and use (sales) tax, parcel tax, utility users tax, general obligation bonds supported by a property tax override, and a variety of assessment and district-based mechanisms that fund special-benefit improvements or services. While there are other options, this report limits the options to those that are implemented more broadly in cities.

Strategic Considerations for Measure Selection

The Town's identified funding needs fall into three broad categories: ongoing operating support, capital improvements (streets, parks, facilities), and emergency preparedness (wildfire mitigation). The revenue tools available have different strengths:

- For structural operating support: A local transactions and use (sales) tax (majority-vote general tax) is best suited, providing flexible general-fund revenue that can address the operating deficit and fund ongoing services across multiple departments without legal restrictions. A sales tax also captures non-resident spending, distributing the burden beyond property owners alone. Statewide data shows majority-vote sales tax measures have achieved passage rates of 75–85% over the past five years, compared to ~35–67% for two-thirds special taxes and bonds.
- For capital improvements alongside operating support: The Town may consider pairing a sales tax measure (operating) with a separate General Obligation bond (capital). This approach is common in California and allows voters to evaluate each tool's appropriate use.
- For narrowly targeted improvements: Assessment districts (e.g., Landscaping and Lighting districts) or Community Facilities Districts may complement broader measures

by funding specific neighborhood or development-area improvements, but they cannot address Town-wide structural gaps.

Given the magnitude of the identified projected operating deficit, funding needs for the Town's top strategic priority of emergency preparedness with focus on wildfire, and the urgency of addressing significant deferred maintenance and infrastructure needs without identified revenue to support these needs, staff recommends that Council consider giving direction on whether to consider proceeding with work towards a November 2026 revenue measure, preserve the Town's ability to benefit from a broad, general transactions and use tax measure through a legislative exemption, and provide feedback on next steps for Town staff.

The Town's current three financial analyses will help with further information about the Town and may change how the Council evaluates options. However, absent additional, sustained revenue to address the significant financial needs and projected deficits, Town staff are obligated to consider the Town Council's top strategic priority for ensuring prudent financial management, which includes balancing the budget and funding necessary capital improvements. As such, the Town must work towards a plan to address the scope of services, cost footprint, and statutory obligations requiring funding within the context of a structurally balanced budget. In this scenario, all options are on the table to bring the Town into sustained balance.

Constitutional Framework

California's constitutional structure—principally Propositions 13, 218, and 26—governs how local revenues are classified, the procedures for their adoption, and the applicable voter thresholds.

- Proposition 13 limits ad valorem property taxes on real property to 1 percent of assessed value and authorizes cities, counties, and special districts to impose "special taxes" (including parcel-based special taxes) with two-thirds voter approval.
- Proposition 218 requires voter approval for all local taxes, distinguishes general from special taxes, and sets procedural and substantive requirements for assessments and property-related fees and charges.
- Proposition 26 broadly defines "tax" and narrows the range of regulatory fees and other charges that may be imposed without voter approval.

Under Article XIII C, a general tax (proceeds deposited into the general fund and usable for any governmental purpose) requires majority voter approval at a regularly scheduled general municipal election at which Council Members are elected, while a special tax (proceeds legally restricted to specific purposes) requires two-thirds voter approval.

Local Transactions and Use (Sales) Tax

A local transactions and use tax (district sales tax, commonly referred to as a local sales tax) is a voter-approved tax on taxable retail sales within a city, imposed in 0.125 percent increments and administered by the California Department of Tax and Fee Administration (CDTFA). These

taxes are authorized by the Transactions and Use Tax Law, and the combined local rate in any jurisdiction is generally limited to 2 percent unless specific legislation allows an exception.

- Structure and use: A general transactions and use tax is a majority-vote measure with proceeds deposited into the Town's general fund and allocable through the annual budget, while a special transactions and use tax is a two-thirds-vote measure legally dedicated to specified purposes such as public safety, streets, or wildfire mitigation.
- Administration: After local voter approval, the Town would adopt an ordinance, contract with CDTFA for administration and collection, and receive distributions as general-fund revenue.

For the Town, staff estimate that an additional 0.125 percent ($\frac{1}{8}$ -cent) Town sales tax could generate approximately \$1.3 million annually, while an additional 0.50 percent ($\frac{1}{2}$ -cent) could generate roughly \$5.2 million annually, making a half-cent measure a potentially meaningful tool to address the identified operating and capital funding gap. A local sales tax also captures contributions from non-residents who shop and dine in the Town, thereby reducing the exclusive burden on property owners.

Statewide experience over the past several election cycles indicates that majority-vote general sales tax measures have achieved passage rates in the range of roughly 75 to 85 percent, significantly higher than most two-thirds-vote special taxes or bond measures.

Parcel Taxes (Non-Ad Valorem Property Taxes)

A parcel tax is a non-value-based special tax imposed on parcels of real property, typically as a flat amount per parcel or based on specified parcel characteristics, and is collected on the property tax bill. Parcel taxes are widely used by cities, school districts, and special districts to fund services such as public safety, parks, libraries, or infrastructure maintenance.

- Legal structure: Under Proposition 13 and Proposition 218, parcel taxes are treated as special taxes and must be approved by at least two-thirds of the voters; they may not be based on assessed value and must avoid functioning as ad valorem property taxes.
- Implementation and equity considerations: The Town Council would define the taxable unit (e.g., per parcel or per dwelling unit), rate, duration, exemptions (such as low-income seniors), use of proceeds, and accountability provisions, with the tax then collected on the county tax roll. Because they fall solely on property owners and are often flat per parcel, parcel taxes can raise equity concerns and are generally less flexible than a general sales tax.

For the Town, a parcel tax of approximately \$100 per parcel per year is estimated to generate approximately \$1.1 million annually, with the exact amount dependent on the final tax structure, parcel counts, and exemptions.

Utility Users Tax (UUT) and Other General Taxes

A utility users tax (UUT) is a tax on the consumption of utility services, such as electricity, gas, telecommunications, and, in some jurisdictions, cable or refuse, by users within the Town. General law cities may also consider implementing or increasing other general taxes, including transient occupancy tax (TOT) and business license taxes, to support core services.

- Legal authority and use: Most UUTs are structured as general taxes requiring majority voter approval, though some jurisdictions have adopted UUTs as special taxes subject to a two-thirds threshold. A UUT is typically imposed by ordinance, collected by utility providers on customer bills, and remitted to the city as ongoing general-fund revenue.
- Prevalence and considerations: Approximately 150–160 California cities and several counties levy a UUT, generating on the order of \$1.8–\$2.0 billion annually statewide. UUT revenues can be significant and relatively stable, but policy concerns include the impact on ratepayers, and changes in consumption approaches can make this revenue option burdensome to current ratepayers.

Other general taxes, such as TOT or adjustments to existing business license taxes, may provide targeted revenue opportunities but are likely to generate less annual revenue than a Town-level revenue measure, depending on local economic conditions.

General Obligation (GO) Bonds with Property Tax Override

General obligation bonds are voter-authorized debt instruments secured by an additional ad valorem property tax rate levied above the 1 percent Proposition 13 cap, used to finance major capital improvements rather than ongoing operating costs.

- Legal and financial structure: With two-thirds voter approval, a general law city may issue GO bonds and levy a dedicated property tax sufficient to pay annual principal and interest, with the additional levy excluded from the 1 percent cap. Bond proceeds must be used for the specific capital purposes described in the ballot measure, such as facilities, infrastructure, or other long-lived assets, and cannot be used for general operations or routine maintenance.
- Use and taxpayer communication: GO bonds are commonly used to construct or rehabilitate city halls, police and fire facilities, libraries, parks, and similar infrastructure, with voter information typically presented as a total authorization (e.g., \$50 million) and an estimated annual tax rate per \$100,000 of assessed value.

For the Town, illustrative modeling indicates that each \$10 million in GO bond authorization equates to an estimated additional property tax rate on the order of tens of dollars per \$100,000 of assessed value (as an example, roughly \$25 per \$100,000 for a \$10 million authorization), with higher authorization scaling proportionally. GO bonds can therefore be an important tool for facility and infrastructure needs but are not a substitute for a flexible revenue source to address structural operating gaps.

Assessments, Landscaping and Lighting, and Special District Options

Special assessments and district-based financing mechanisms provide additional tools to fund improvements and services that confer “special benefits” on particular properties, but they are not general taxes and cannot support broad general-fund stabilization.

- Special assessments and benefit districts: Under Proposition 218, assessments must be proportionate to the special benefit received by each parcel, require mailed notice and a property-owner balloting process, and are typically used for localized improvements such as streetscapes, storm drainage, business districts, and neighborhood amenities.
- Landscaping and Lighting Act of 1972 districts and similar mechanisms: Landscaping and Lighting Act districts, street lighting districts, and related tools are used to finance landscaping, lighting, and related improvements and services within defined boundaries, subject to Proposition 218’s special-benefit and property-owner approval requirements.

Other district mechanisms, such as Mello-Roos Community Facilities Districts (CFDs), can finance infrastructure and specified services within a defined area through a special tax that typically requires two-thirds approval by the affected electors. Because these tools are geographically limited and legally tied to specific facilities or services, they are best viewed as targeted supplements for particular projects or new development areas, rather than primary tools to resolve Town-wide operating imbalances.

Recent Performance of Local Revenue Measures (Past Five Years)

Experience across California over the past five years provides important context for evaluating revenue options. Election data from November 2020 through November 2024¹ show that majority-vote general sales tax measures have enjoyed consistently high passage rates, while two-thirds measures, including parcel taxes and GO bonds, have struggled to reach the required supermajority.

- Across four election cycles, approximately 217 general sales tax measures were proposed statewide, of which about 181 were approved, for an aggregate passage rate of roughly 84 percent and annual success rates ranging from 76 to 89 percent.
- In the same period, parcel taxes and city/county special taxes and bonds requiring two-thirds approval achieved passage rates in the approximate range of 35 to 67 percent, depending on measure type and election.

Research and practitioner experience identify several factors associated with successful general sales tax measures:

- Clear articulation of community needs and specific service or project priorities.
- Strong accountability and transparency provisions, such as independent citizens’ oversight, annual audits, and regular reporting.

¹ Data compiled by Michael Coleman through his website www.californiacityfinance.com

- Emphasis on public safety, emergency response, and risk reduction, which consistently resonates with voters.
- Tangible, visible improvements (e.g., streets, parks, facilities) that demonstrate the return on investment.

These statewide results do not guarantee success for any individual measure, but they do indicate that a well-designed, majority-vote general sales tax has historically offered a significantly higher probability of passage than revenue measures requiring a two-third voter threshold. Conversely, parcel taxes, GO bonds, and other two-thirds measures may be better deployed in later phases or for specific capital projects, once a general revenue foundation is in place and community support is well established.

CONCLUSION:

The Town is not yet in a fiscal emergency, but current trends, including projected operating deficits, rising personnel costs, and significant unfunded capital and wildfire needs, show that the existing revenue structure will not sustain desired service levels over time. Acting now allows the Council to preserve options, rather than waiting until a structural crisis forces abrupt cuts or rushed measures.

Authorizing pursuit of special sales tax legislation and engaging professional consultants, along with allocating \$80,000 for this work, does not commit the Town to placing a measure on the November 2026 ballot. It simply ensures that, if the Council chooses to proceed, the legal foundation, technical analysis, and community engagement necessary for a well-designed, voter-ready option will be in place.

ENVIRONMENTAL REVIEW:

The recommendations in this report are administrative and procedural in nature. They do not involve any discretionary approval of a project, land-use decision, or specific physical activity that would trigger California Environmental Quality Act (CEQA) review.

The recommendations do not commit the Town to placing any revenue measure on the ballot or to implementing any specific project. Those future decisions (should the Council elect to pursue a measure, and should voters approve it) will be separate Council actions and may require individual CEQA analysis at the time the specific project or program is proposed. Accordingly, CEQA does not apply to the recommendations in this report.

Attachments:

1. Five-Year Forecast updated on December 29, 2025
2. CIP Agenda Report of November 19, 2024
3. Wildfire Report of December 16, 2025