



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 11/03/2020

ITEM NO: 3

DATE: October 23, 2020
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Gann Appropriation Limit
a. Authorize the Town Manager to Enter into an Agreement with the County of Santa Clara for Transfer of Appropriation Limit of the June 18, 2019 Annexation
b. Adopt a Resolution Establishing the FY 2020/21 Gann Appropriations Limit for the Town of Los Gatos

RECOMMENDATION:

Gann Appropriation Limit

- a. Authorize the Town Manager to enter into an Agreement with the County of Santa Clara for transfer of Appropriation Limit of the June 18, 2019 Annexation
- b. Adopt a Resolution establishing the FY 2020/21 Gann Appropriations Limit for the Town of Los Gatos

BACKGROUND:

On November 6, 1979, California voters approved Proposition 4, commonly known as the Gann Spending Limitation Initiative, establishing Article XIII B of the California State Constitution. This Proposition, which became effective in fiscal year (FY) 1980/81, mandated an appropriations (spending) limit on the amount of tax proceeds that the State and most local government jurisdictions may appropriate within a fiscal year. Charges for services, fees, grants, loans, donations, and other non-tax proceeds are excluded from the spending limitation. Exemptions are also made for voter-approved debt prior to January 1, 1979 and the cost of court-related or Federal government mandates.

The Initiative was later modified by two propositions: Proposition 98 in 1988 and Proposition 111 in 1990. Proposition 98 established the return of tax revenues exceeding appropriation

PREPARED BY: Stephen Conway
Finance Director

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

SUBJECT: Adopt a Resolution Establishing the FY 2020/21 Gann Appropriations Limit for the Town of Los Gatos

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BACKGROUND (continued):

limit levels to the State or citizens through a process of refunds, rebates, or other means. Proposition 111 allowed more flexibility in the appropriation calculation factors.

The Town recently signed an annexation agreement with the County of Santa Clara reflecting the annexation of multiple county pockets in 2019. The Town has adopted a placeholder Gann Limit resolution in August while both parties were in a process of determining the mutually agreed amount for Gann Limit calculation purposes. In that resolution staff noted that the Town of Los Gatos FY 2020/21 Appropriation Limit will increase with the adjustment, and that a new calculation will be presented to Town Council as soon as the adjustment amount is available.

DISCUSSION:

Attached for Council consideration is a resolution establishing an appropriations limit for FY 2020/21. The appropriations limit is based on population and per capita income data provided by the State of California Finance Department. In alignment with State guidelines, the appropriation limit for FY 2020/21 was calculated using inflation and population factors comprised of the change in County or Town population (whichever is higher) and the change in California per capita personal income.

In addition to the annual inflation and population adjustments, the Appropriations Limit must be adjusted in the event that the financial responsibility for providing services is transferred in whole or in part from one entity of government to another. Whenever financial responsibility for all or some part of a service is transferred between government agencies, the agencies must increase or decrease their limits "by such reasonable amount as the said entities shall mutually agree..." The amounts adjusted should be the same for the two agencies.

As mentioned earlier, the Town recently signed an annexation agreement with the County of Santa Clara and subsequently, both parties reached a mutually agreed amount for Gann Limit calculation purposes. One of the actions for Town Council consideration is authorizing the Town Manager to enter into an agreement with the County reflecting the mutually agreed upon transfer amount (Attachment 1).

The current calculation of the FY 2020/21 Gann Appropriations Limit, including the annexation adjustment, is as follows:

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DISCUSSION (continued):

FY 2020/21 Calculation

Town Population Factor		Per Capita Income Factor		Appropriation Factor		2019/20 Appropriation Limit		2020/21 Appropriation Limit
1.0234	X	1.0373	=	1.061573	X	\$ 43,180,611	=	\$ 45,839,363

The appropriations limit is the total amount of tax money that can be appropriated by the Town in FY 2020/21. The proposed FY 2020/21 budget anticipates \$31,407,235 in taxes, which is \$15,391,792 less than the appropriation limit of \$45,839,363.

FISCAL IMPACT:

There is not direct identifiable fiscal impact from this action.

ENVIRONMENTAL ASSESSMENT:

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

Attachments:

1. Agreement regarding Transfer of Appropriation Limit between the Town of Los Gatos and Santa Clara County
2. Resolution establishing the Gann Appropriation Limit for FY 2020/21