



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 02/20/2024

ITEM NO: 15

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DATE: February 15, 2024  
TO: Mayor and Town Council  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Provide Direction on Any Ballot Measures to Consider for Polling

**RECOMMENDATION:**

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.

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).

Other cost drivers, such as medical benefits, have been fluctuating and increasing in recent years by as much as 11% in a single year. Unfortunately, revenues are not increasing by double digits.

**PREPARED BY:** Katy Nomura  
Assistant Town Manager

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

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BACKGROUND (continued):

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:

- 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 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.

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 (Attachment 1) 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 made the following recommendation to Council: The Finance Commission unanimously passed a motion recommending 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.

BACKGROUND (continued):

While the Commission did not make a motion regarding any potential ballot measure, individual Commissioners questioned the need for it at this time. One Commissioner expressed that there may or may not be merit to the 1/8<sup>th</sup> cent tax measure and indicated this was the reason they declined to opine.

On February 13, 2024, the 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.

DISCUSSION:

NBS conducted a comprehensive evaluation of options to increase revenue for the Town and associated revenue modeling. 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. Franchise fees were discussed as part of the UUT analysis. 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.”

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

Among other scenarios, NBS explored revenue modeling for a parcel tax with senior/low-income exemptions and a parcel tax on commercial buildings over 25,000 square feet. Any parcel tax would require a two-thirds approval from voters to pass.

In order for a parcel tax with senior/low-income exemptions to generate an estimated \$1M annually, it would need to be roughly \$97.70 per parcel, \$0.0055 per lot square foot, or \$0.04 per building square foot.

DISCUSSION (continued):

In order for a parcel tax on commercial buildings over 25,000 square feet to generate an estimated \$1M annually, it would need to be roughly \$0.83 per building square foot. Only 35 parcels in the Town have commercial buildings over 25,000 square feet that would be subject to such a parcel tax.

Polling Next Steps

Regarding a revenue measure for the 2024 ballot, the Town is not in a position to determine whether a measure should be placed on the ballot or not as polling has not been conducted. Polling is a targeted effort to survey a statistically representative sample of likely voters to test potential ballot measures, ballot language, and potential services to fund (see Attachment 2). In other smaller cities, samples sizes as low as 90 likely voters have yielded reliable and ultimately successful results. The results of any polling should give proper guidance for specific recommendations and for the Council to make its decision. Polling will also inform public messaging around any potential revenue ballot measure. Draft messaging is included in Attachment 3 and updated messaging would return to Council with the polling results, should polling occur.

If polling is conducted, a summary of the results would be brought to the Finance Commission for a recommendation to the Council as to whether or not to pursue placing a measure on the 2024 ballot. The results and the Finance Commission's recommendation would then be brought to the Council for consideration.

CONCLUSION:

Staff looks forward to Council's discussion and direction on which potential revenue measures to consider for polling, if any. NBS recommends that no more than two options should be polled.

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.

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SUBJECT: Potential Revenue Ballot Measure Options

DATE: February 15, 2024

ENVIRONMENTAL ASSESSMENT:

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

Attachment:

1. NBS Revenue Modeling Report
2. Polling Overview
3. Draft Messaging