



**TOWN OF LOS GATOS  
COUNCIL AGENDA REPORT**

MEETING DATE: 3/06/2018

ITEM NO: 07

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DATE: FEBRUARY 21, 2017  
TO: MAYOR AND TOWN COUNCIL  
FROM: LAUREL PREVETTI, TOWN MANAGER  
SUBJECT: PROVIDE DIRECTION ON THE NEXT STEPS TO PROCEED WITH PREPARING  
BALLOT LANGUAGE TO PLACE A 1/8 CENT GENERAL SALES TAX ON THE  
NOVEMBER 2018 BALLOT BASED ON THE COUNCIL FINANCE COMMITTEE  
INPUT

**RECOMMENDATION:**

Provide direction on next steps to proceed with preparing ballot language to place a 1/8 cent general sales tax on the November 2018 ballot based on the Council Finance Committee input.

**BACKGROUND:**

On October 4, 2017 the Council Finance Committee discussed placing a 1/8 cent general sales tax on the November 2018 ballot for community consideration. The staff report detailed how State law limits the ability of the Town to bring a sales tax measure to voters only during Council election years. In addition, because of the State cap on local sales tax additions described in the report, there is a distinct possibility that other local taxing entities could take actions that would preclude the Town's ability to seek a sales tax specifically dedicated for Los Gatos purposes. As such, staff recommended that it would be prudent at this time for the Council to consider providing the community the opportunity to consider a sales tax dedicated to the Town.

On November 7, 2017, the Town Council reviewed the recommendation of the Council Finance Committee (Attachment 1) to proceed with preparing a ballot measure to place a 1/8 cent general sales tax on the November 2018 ballot for Los Gatos priorities. At the conclusion of the Council discussion and public testimony, the Town Council directed staff to have the Council Finance Committee review and discuss both the options of a general sales tax and a special sales tax.

**PREPARED BY:** ARN ANDREWS  
Assistant Town Manager

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

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BACKGROUND (continued):

On December 4, 2017, the Council Finance Committee received a staff report (Attachment 2) which provided information on the six Sales Tax measures conducted in Santa Clara County since 2008. The staff report identified the type of measure, ballot language for each, percentage of pass/fail and type of sunset provision. In addition, the report provided a chronology of essential administrative and Council steps necessary to place a measure on the November ballot. The report also includes the timeline for a measure to be placed on the ballot.

On February 12, 2018, the Council Finance Committee received a presentation from staff (Attachment 3) illustrating the sensitivity of the current five year General Fund forecast to modest changes in two of the Town's major revenues and its pension expense. The intent of the presentation was to highlight how even modest downward revisions to the forecast result in a significant deterioration of the Town's financial position and potential annual deficits approaching \$3.0 million per year. In addition, the Town organization utilized expense reductions almost exclusively during the last two recessions and ultimately downsized the organization approximately twenty percent. As a result, expense reductions exclusively will be extremely challenging during the next recession if current base level services are to be maintained. As such, a sales tax increase dedicated exclusively for Los Gatos has been identified as one way to help maintain Town service levels during an economic downturn.

In addition the Committee also received a report from staff (Attachment 4) which provided sample ballot language for three general sales tax measures and three special sales tax measures. With the exception of the special tax for the construction of a garage, the sample ballots were developed utilizing polling results from a 2016 resident survey from a prior sales tax ballot initiative (Attachment 5). The sample ballot examples are intended to be illustrative for discussion purposes and not necessarily the final ballot language that the Town Council would potentially adopt. If the Council chooses to direct staff to move forward with a general or special sales tax, staff will return to Council with recommended ballot language, ordinance, and resolution.

For the Council's convenience the sample language is provided on the next pages.

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Background (continued):

*Sample General Sales Tax Ballot Language*

General Sales Tax Measure	Sample Ballot Question
<p><b>Sample #1</b></p> <p>Informed Support Los Gatos Ballot Language</p> <p>Lew Edwards Group</p> <p>May 2016</p>	<p>“To maintain the quality of life and small town character in the Town of Los Gatos by:</p> <ul style="list-style-type: none"> <li>• Fixing potholes, sidewalks and repairing neighborhood and major Town streets;</li> <li>• Upgrading Town parks, playground equipment and restrooms;</li> <li>• Upgrading walking, hiking and bike trails;</li> <li>• Beautifying downtown,</li> <li>• Maintaining Town facilities, and</li> <li>• Other essential Town facilities and services;</li> </ul> <p>Shall the Town of Los Gatos enact a one-half cent sales tax, providing \$4 million dollars annually, for 25 years, with annual audits, independent citizens’ oversight, and all funds spent locally?”</p>
<p><b>Thesis</b></p>	<p>Sample #1 provides the exact same ballot language that was crafted by the Lew Edwards Group (campaign consultant) based on the survey results provided by Godbe Research. This ballot language provided had informed support of 64.4%.</p>
<p><b>Sample #2</b></p> <p>Los Gatos Ballot Language</p> <p>Sample 2018 General</p>	<p>“To fund essential Town services such as maintaining neighborhood police patrols; improving traffic flow to reduce traffic congestion; repairing potholes and fixing neighborhood streets; and maintaining the Town’s long-term financial stability, shall the Town of Los Gatos enact a 1/8 percent sales tax for 20 years, providing about \$800,000 annually, requiring Independent Citizens Oversight with public review of spending, and all revenues controlled locally?”</p>
<p><b>Thesis</b></p>	<p>Sample #2 is based on a ballot language format used by the City of San Jose for their 2016 Measure B quarter-cent general sales tax measure. Measure B passed with 61.4% and included a 15 year sunset.</p>
<p><b>Sample #3</b></p> <p>Los Gatos Sample Ballot Language</p> <p>Sample 2018 General</p>	<p>“In order to maintain and protect Los Gatos services and facilities, including but not limited to Town streets and pothole repair, police patrols, and traffic relief measures, shall the Town of Los Gatos be authorized to enact a one-eighth cent sales tax for 20 years, with all proceeds placed in the Town's General Fund providing about \$800,000 annually, requiring Independent Citizens Oversight with public review of spending and independent annual financial audits, and all funds spent locally?”</p>
<p><b>Thesis</b></p>	<p>Sample #3 is based on a ballot language format used by the City of Campbell for their 2008 Measure O quarter-cent general sales tax measure. Measure O passed with 70.5% and included no sunset clause.</p>

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Background (continued):

*Sample Special Sales Tax Ballot Language*

Special Sales Tax Measure	Sample Ballot Question
<p><b>Sample #1</b></p> <p>Infrastructure Improvements</p>	<p>“To reduce traffic congestion and maintain community parks and open space, shall the Town of Los Gatos enact a 20 year one-eighth sales tax to generate about \$800,000 annually to:</p> <ul style="list-style-type: none"> <li>• Fix potholes and sidewalks;</li> <li>• Reconstruct and resurface Town streets;</li> <li>• Improve traffic flow;</li> <li>• Make traffic signal improvements;</li> <li>• Maintain parks and open space;</li> <li>• Mandate annual audits, independent citizens’ oversight, and all funds spent locally?”</li> </ul>
<p><b>Thesis</b></p>	<p>Sample #1 is based on a ballot language format used by the Santa Clara Valley Transportation Authority for their 2016 Measure B half-cent special sales tax measure. Measure B passed with 71.7% and included a 30 year sunset clause. In addition, the bullets above represent 7 of the top 10 priorities identified in the Godbe Research survey.</p>
<p><b>Sample #2</b></p> <p>Public Safety</p>	<p>“To maintain the quality of life and small town character of our Town, shall the Town of Los Gatos enact a 20 year one-eighth sales tax to generate about \$800,000 annually to:</p> <ul style="list-style-type: none"> <li>• Maintain neighborhood police patrols;</li> <li>• Maintain 9-1-1 response times;</li> <li>• Improve traffic flow to reduce traffic congestion;</li> <li>• Mandate annual audits, independent citizens’ oversight, and all funds spent locally?”</li> </ul>
<p><b>Thesis</b></p>	<p>Sample #2 is based on a ballot language format used by the Santa Clara Valley Transportation Authority for their 2016 Measure B half-cent special sales tax measure. Measure B passed with 71.7% and included a 30 year sunset clause. In addition, the bullets above represent 3 of the top 7 priorities identified in the Godbe Research survey.</p>
<p><b>Sample #3</b></p> <p>Parking Garage</p>	<p>“To maintain the vitality of downtown, reduce congestion , enhance economic vitality, and maintain the quality of life of our Town, shall the Town of Los Gatos enact a 20 year one-eighth sales tax to generate about \$800,000 annually to construct a new parking facility and other downtown improvements mandating annual audits, independent citizens’ oversight, and all funds spent locally?”</p>
<p><b>Thesis</b></p>	<p>The downtown parking project has never been polled, however, there appears to be sentiment that a parking garage could help alleviate parking congestion and help strengthen the downtown business district. It should be noted that community vitality concepts were two of the Council Strategic Priorities recently embraced.</p>

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DISCUSSION:

During the February 12, 2018 Council Finance Committee sales tax discussion, the voting members did not provide a consensus recommendation to the Town Council. Provided below is a synopsis of the discussion that took place among Committee members (voting and non-voting) and the residents in attendance.

*Voting Committee Members*

Committee Member Spector indicated that she has always been opposed to general tax measures due to the changing nature of staff and Councils over the years. The transient nature of staff and Councils create shifting priorities and new tax revenues should only be raised to address specific critical needs of the Town. She said that she would only support a special tax dedicated to pension liabilities since that is a critical need of the Town. She believes language could be crafted that would make a special tax dedicated to pension liabilities viable. In addition, she expressed that the 2016 survey is outdated and no longer relevant since it did not address recent Town concerns of beach traffic and pension liabilities.

Committee Member Rennie indicated support for a general tax and does not believe a special tax can pass, especially if it is designed for pension liabilities. In addition, he made general comments about other agencies pursuing sales tax measures and therefore, the Town should pursue one before the opportunity is gone.

*Non-Voting Committee Members*

Committee Member Monk indicated support for a general sales tax based on the probability of passage. General comments were made that the Town is in a race for the remaining tax capacity and we should seek the highest probability alternative. In addition, he inquired if beach traffic was surveyed in 2016. Staff replied that it was not.

Committee Member Duryea indicated that there was no compelling reason for a special tax and believed general tax language should be crafted that is consistent with the potential of an economic downturn. Language should be crafted that is not overly specific and allows flexibility.

Committee Member Tinsley indicated that as a financial advisor to the Town, he believes a general tax is warranted. He mentioned that the overhead associated with managing a special

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tax is not an efficient use of resources. In addition, the language should be honest but not overly specific to provide flexibility in the event of an economic downturn.

DISCUSSION (continued):

*Community Members*

Public testimony was received by four residents who all indicated support for a sales tax measure. Of the four residents who spoke, one indicated support for a special tax geared toward infrastructure and public safety; another indicated support for a special tax but not directed towards a parking garage; one indicated support for maintaining Pavement Condition Index (PCI) levels; and the final resident speaking on behalf of the Chamber indicated support for a tax measure if directed toward economic vitality. In addition, there were general comments made about the revenues being maintained by the Town for Town purposes and if the Town does not pursue them, another agency ultimately will.

CONCLUSION AND NEXT STEPS:

In staff's judgement, in order for the Town to maintain current base level services during the next recession additional revenues will be necessary. Staff recommends a general tax to enhance the likelihood of success. By placing this matter on the ballot, the community will have the opportunity to consider a sales tax dedicated solely to the Town. The Town Council should provide direction on the following:

- Determine if 4/5 of the Council support either a general or special sales tax measure.
- If 4/5 support for a general tax, provide direction on which sample ballot language is preferable.
- If 4/5 support for a special tax, provide direction on which sample ballot language is preferable.
- If 4/5 support is not achieved for a sales tax measure in 2018, provide direction if additional revenue measures should be reviewed for the November 2018 ballot.

COORDINATION:

This report was coordinated with the Town Manager's Office, the Town Attorney's Office, and the Finance Department.

FISCAL IMPACT:

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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

FISCAL IMPACT (continued):

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. November 7, 2017 Council Report
2. December 4, 2017 Finance Committee Report
3. Preparing for the Next Recession Slide Presentation
4. February 12, 2018 Finance Committee Report
5. Godbe Research Survey 2016