



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 06/15/2021

ITEM NO: 8

DATE: June 8, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Adopt Resolutions Establishing the FY 2020/21 and FY 2021/22 Gann Appropriations Limits for the Town of Los Gatos

RECOMMENDATION:

Adopt Resolutions establishing the FY 2020/21 and FY 2021/22 Gann Appropriations Limits 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 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 Council adopted the FY 2020/21 Gann Limit resolution in October 2020 based on the mutually agreed amount for Gann Limit calculation purposes (see Attachment 1).

PREPARED BY: Stephen Conway
Finance Director

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

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BACKGROUND (continued):

In the resolution adopted in October 2020, staff adjusted the base with the agreed upon amount first and applied the appropriation factor arriving at a \$45,839,363 Gann Appropriation Limit. Staff conferred with the Town’s independent auditor and is modifying the original FY 2020/21 amount by applying the calculation factor first and then adjusting the new base by the agreed upon amount to derive a revised Gann Appropriation Limit of \$45,831,327. Attachment 2 contains the resolution updating the Gann Appropriation Limit for FY 2020/21 as it serves as the base for the calculation of the ensuing FY 2021/22 Gann Appropriation Limit.

DISCUSSION:

Attachment 3 for Council consideration is a resolution establishing an appropriations limit for FY 2021/22. 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 2021/22 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 in 2020 and subsequently, both parties reached a mutually agreed amount for Gann Limit calculation purposes that is reflected in the FY 2020/21 Gann Limit calculation.

The calculation of the FY 2021/22 Gann Appropriations Limit is as follows:

FY 2020/21 Calculation					
County Population Factor		Per Capita Income Factor		2020/21 Appropriation Limit	2021/22 Appropriation Limit
0.9944	X	1.0573	=	1.051379	X \$ 45,831,327 = \$ 48,186,101

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DISCUSSION (continued):

The appropriations limit is the total amount of tax money that can be appropriated by the Town in FY 2021/22. The proposed FY 2021/22 budget anticipates \$30,797,977 in taxes, which is \$17,388,124 less than the appropriation limit of \$48,186,101.

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. October 2020 Resolution establishing the Gann Appropriation Limit for FY 2020/21
2. Resolution updating the Gann Appropriation Limit for FY 2020/21
3. Resolution establishing the Gann Appropriation Limit for FY 2021/22