



TOWN OF LOS GATOS
FINANCE COMMISSION REPORT

MEETING DATE: 06/13/2022

ITEM NO: 3

DATE: June 9, 2022
TO: Finance Commission
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Town of Los Gatos Business License Analysis and Ordinance Review and Recommend the Town Council Pursue a Ballot Measure to Modernize and Create a More Equitable Tax Structure

RECOMMENDATION:

Receive the Town of Los Gatos Business License Analysis and Ordinance Review and recommend the Town Council pursue a ballot measure to modernize and create a more equitable tax structure.

BACKGROUND:

On September 13, 2021, the Town Finance Commission reviewed the Town's Business License Tax Program and recommended that the Town Council authorize the Town Manager to issue an Request For Proposal (RFP) for consultant services to evaluate and recommend modernization options for the Town's Business License Tax Program. On October 19, 2021, the Town Council received the Finance Commission recommendation (Attachment 1) and directed staff to engage a consultant to review the Town's 1991 Business Tax Ordinance and recommend options for updating the Ordinance.

On December 17, 2021, the Town issued an RFP for Business License Tax consulting services. The Town received a single response from HdL Companies (HdL) by the January 26, 2022, submission deadline. HdL was selected given their significant experience in business license review and analysis including having performed dozens of tax study and modernization programs in California.

PREPARED BY: Arn Andrews
Assistant Town Manager

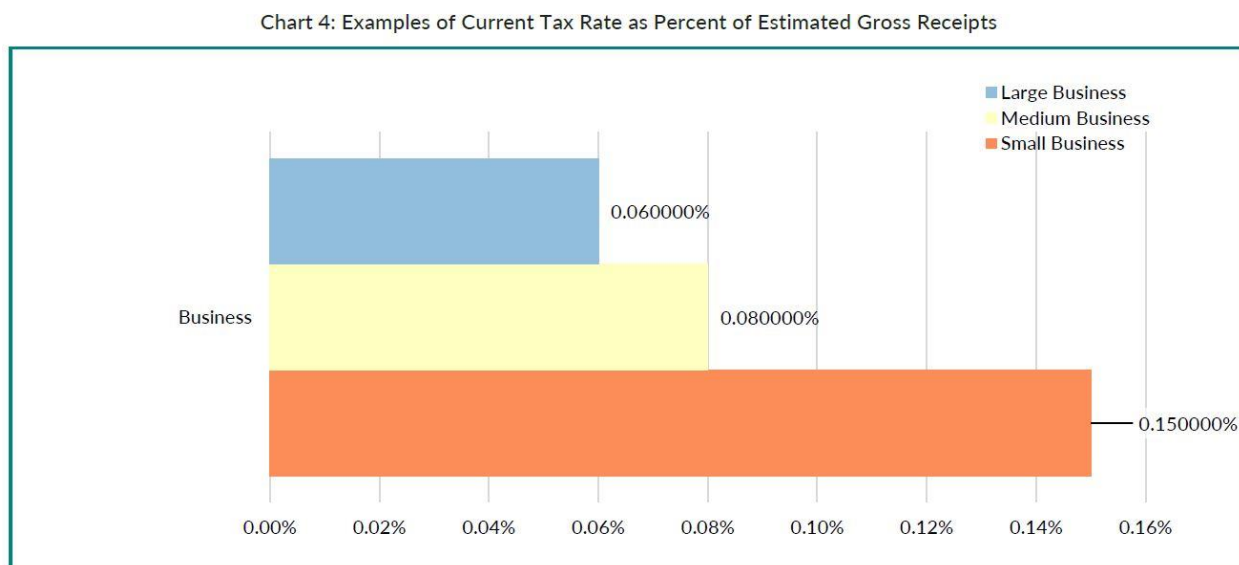
Reviewed by: Town Manager and Finance Director

DISCUSSION:

HdL submitted their Business License Analysis and Ordinance Review to the Town on June 8, 2022 (Attachment 2). The report includes an executive summary, analysis of the Town's current business tax structure and comparative jurisdictions, options for modifying the Town's business tax rates and classifications, and appendix with administrative recommendations to simplify other elements of the Town's Ordinance.

Following is a summary of the major findings and recommendation of the report:

Having not been updated in over 30 years and currently utilizing a blend of flat fees and decreasing gross-receipts tax rates, the Town's existing structure is regressive in nature. This is illustrated in Chart 4 of the report.



Compared to other jurisdictions, the Town's total business tax revenue is relatively strong (Table 2 of the report) however as illustrated above the composition of those revenues is currently not equitable.

Given the results of the analysis, HdL has recommended that the Town move to a single-rate, gross-receipts model (Model 2 in the report). This model is simple to administer since everyone is charged the same rate. The "single rate" method of taxing on gross receipts provides an even distribution of the effective tax rate because all businesses subject to the tax will pay the same rate. Under this method, no cap is put in place, and therefore most of the revenues are received from the highest-grossing businesses. While the model does expand revenue, it does so by helping to decrease the effective tax rate on smaller businesses while asking larger

DISCUSSION (continued):

businesses to pay their fair share. The model also lowers the annual base rate to a uniform \$25, to provide some additional tax relief for smaller businesses. The following chart (Chart 9 in the report) illustrates the redistribution of effective tax rates among small, medium, and large business's utilizing two different single-rate scenarios.

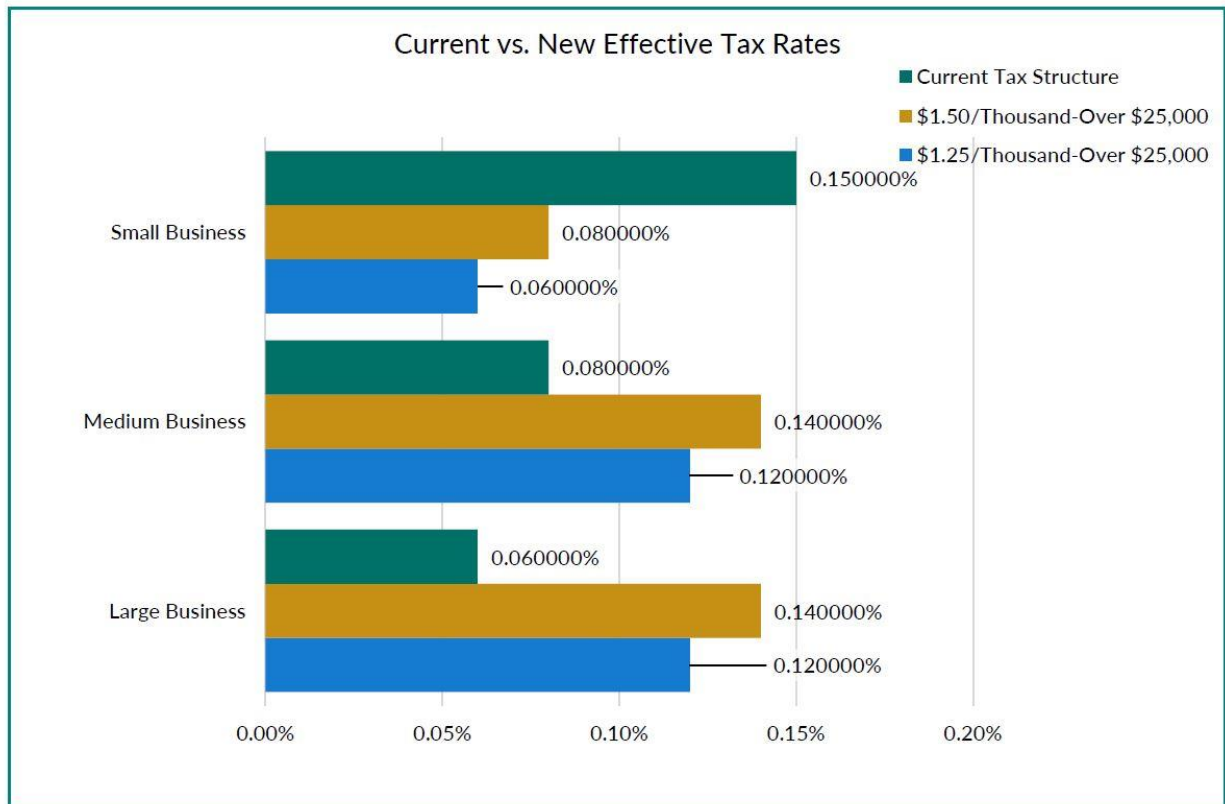


Table 8 from the report (below) illustrates the potential revenues from implementing a gross receipts tax (Model 2) with two single-rate options, \$1.25 per thousand and \$1.50 per thousand.

Number of Accts	Taxable Gross Receipts	Base Rate @ \$25 per Account	Tax Amount \$1.25/ thousand -Over \$25,000-	Tax Amount \$1.50/ thousand -Over \$25,000-
2,483	\$1.17 billion	\$62,075	\$1,382,939	\$1,659,527
TOTAL			\$1,445,014	\$1,721,602

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CONCLUSION:

The Finance Commission should review the Town of Los Gatos Business License Analysis and Ordinance Review and recommend the Town Council pursue a ballot measure to modernize and create a more equitable tax structure.

Attachments:

1. October 19, 2021 Council staff report
2. HdL Business License Analysis and Ordinance Review
3. June 2, 2022 Chamber Letter