



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 08/02/2022

ITEM NO: 18

DESK ITEM

DATE: August 2, 2022
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Adopt a Resolution of the Council of the Town of Los Gatos for Model 3, Calling a Municipal Election for November 8, 2022, Requesting that the County Consolidate the Municipal Election with the General Election on November 8, 2022, and Submitting to the Qualified Electors of the Town at the November 8, 2022 Consolidated General Election a Measure to Amend Chapter 14 of the Los Gatos Town Code Relating to Business License Taxes

REMARKS:

The following information is provided in response to questions from Council Members, additional business feedback since the posting of the staff report, and other considerations.

Can the ballot measure acknowledge the inflation of the last 30 years?

Yes, the ballot language can acknowledge the 117% inflation that has occurred in the last 30 years. This could read:

Shall the measure to fund critical Town needs such as public safety by imposing , raising about yearly for general fund purposes until ended by voters, and which have not been increased since 1991 while inflation increased 117%, be adopted?	YES
	NO

Do other municipalities have inflation adjustments built in?

Yes, the cities of Belmont, Union City, and Newport Beach have included inflation adjustments. Details of their approaches are provided on the next page.

PREPARED BY: Arn Andrews Assistant Town Manager Holly Young Town Manager Administrative Analyst

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

REMARKS (continued):

In addition, in the event Council opts for a Model that captures only a portion of the 117% inflation factor since 1991 (Model 1 20%), or most of the 117% inflation (Model 3 reduced or Finance Commission alternative), staff would recommend an inflation adjustment be included. Staff would recommend using the Bay Area Consumer Price Index. This could be accomplished by adding the following language to any of the proposed ballot statements.

Shall the measure to fund critical Town needs such as public safety by imposing , raising about yearly for general fund purposes until ended by voters, and which have not been increased since 1991, and adjusted annually for inflation, be adopted?	YES
	NO

Belmont

Sec. 12-28. - Annual adjustment.

The above referenced schedule of fees, including but not limited to the per employee fees, minimum tax, and license fees shall be adjusted annually pursuant to the Bay Area Consumer Price Index (BACPI) over the previous calendar year. The first such adjustment shall occur on July 1, 1991, based upon the 1990 calendar year BACPI.

Union City

5.08.100 Annual adjustment.

Annual adjustment shall be based on the Consumer Price Index. The rate of the license payable for the license period beginning January 1, 1984, and each year thereafter, shall be adjusted as follows: The Consumer Price Index published as of June 30, 1967, by the United States Department of Labor, Bureau of Labor Statistics for San Francisco, California area shall be used as the base year. The Consumer Price Index used for the computation for the succeeding year shall be the preceding June to June, all urban index, San Francisco/Oakland Index rounded off to the nearest full percentage point. Increase shall be sixty-five percent of the CPI and the increase shall be no less than three percent, nor more than ten percent of the increase in CPI for all categories not currently taxed at gross receipts or gross payroll.

Newport Beach

5.08.022 Business Tax—Commercially Based Businesses.

Every commercially based business as defined by this chapter shall pay an annual business tax as established by resolution of the City Council. The business license tax shall automatically be adjusted each year in July to reflect the percentage change, rounded to the nearest dollar, in the cost of doing business as measured by the consumer price index. The term “consumer price

REMARKS (continued):

index” shall mean the United States Department of Labor Bureau of Labor Statistics consumer price index, Los Angeles Anaheim-Riverside.

How would the Town’s business license structure and fees compare to other municipalities?

Based on the HdL analysis and report, the Town has the 3rd highest Business License receipts of the comparators used in the report (pg. 8 of the report). The fact that the comparator jurisdictions have different tax structures (flat fee, per employee, gross receipts) is the primary driver of the difference in receipts. Since all the models under consideration raise additional revenues, Los Gatos will continue to be in the top tier of Business License receipts.

Additional Business Feedback

Staff concluded their third conversation with representatives of Netflix on August 1, 2022. During the call with Netflix, representatives shared that they understand the Town’s impetus for initiating a review of the Business License program and expressed their thoughts on the three models under consideration. Netflix is neutral on Model 1, opposed to Model 2, and felt Model 3 is overly punitive as is, and if considered by Council, should be closer in line with the 117% inflation factor referenced in the staff report. Staff greatly appreciated Netflix’s engagement and will be available to respond to questions on the sequence of calls.

Other Considerations

As the Town Council considers the different models, the Council is free to consider options for any of the three models. Staff is prepared to run real-time calculations if Council would like to see the effects of different tax rates for the flat fees, retailing gross receipt rates, and/or e-commerce, manufacturing, wholesaling/jobbing gross receipt rates. Staff is also preparing a resolution and associated ordinance for the Finance Commission recommendation.

If the Council votes on a measure that is a more complex variation of one or more of the models, a special meeting prior to August 12, 2022 would be needed to provide the public and the Council an opportunity to review the associated resolution and ordinance.

Attachments Previously Recieved with the July 29, 2022 Report:

1. Public Comment
2. Model 1 Resolution with corresponding Ordinance as Attachment A
3. Model 2 Resolution with corresponding Ordinance as Attachment A
4. Model 3 Resolution with corresponding Ordinance as Attachment A

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SUBJECT: Business License Modernization

DATE: August 2, 2022

Attachment Provided with this Desk Item:

5. Correspondence received after 11:01 a.m. on July 29, 2022 and before 11:00 a.m. on August 2, 2022