



**TOWN OF LOS GATOS**  
**FINANCE COMMISSION REPORT**

MEETING DATE: 07/28/2022

ITEM NO: 1

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DATE: July 25, 2022  
TO: Finance Commission  
FROM: Laurel Prevetti, Town Manager  
SUBJECT: Receive Town of Los Gatos Business License Model Analysis and Business Outreach Input and Recommend the Town Council Pursue a Ballot Measure with One of Three Model Options to Modernize the Current Tax Structure

**RECOMMENDATION:**

Receive Town of Los Gatos Business License model analysis and business outreach input and recommend the Town Council pursue a ballot measure with one of three model options to modernize the current 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 a 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 and directed staff to engage a consultant to review the Town's 1991 Business Tax Ordinance and recommend options for modernizing the Ordinance.

On December 17, 2021, the Town issued an RFP for Business License Tax consulting services. Hinderliter, deLlamas & Associates (HdL) Companies was selected given their significant experience in business license review and analysis, including having performed dozens of tax study and modernization programs in California.

HdL submitted their Business License Analysis and Ordinance Review (Report) to the Town on June 8, 2022.

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

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

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BACKGROUND (continued):

On June 13, 2022, the Finance Commission discussed the HdL Report and voted unanimously to move forward to continue research and public outreach on business license tax modernization. On June 21, 2022, the Town Council unanimously directed staff to continue conducting research and public outreach and prepare options for proposed ballot measure language for Council consideration on August 2, 2022.

DISCUSSION:

Per Council direction, staff has been coordinating extensive business outreach and working with HdL to refine potential business license modernization models. Following are summaries of both efforts:

*Business Outreach*

The Town set up a dedicated webpage at [www.LosGatosCA.gov/BLModernization](http://www.LosGatosCA.gov/BLModernization) with information regarding the current business license tax program, background on modernizing the tax, discussions to date, the options being considered, and the timeline for a ballot measure. The Town also set up a unique email address of [BLModernization@losgatosca.gov](mailto:BLModernization@losgatosca.gov) for public comment and received several communications on this topic from a variety of businesses (see Attachment 1).

The Town hosted a community workshop on July 25, 2022 at 7:00 p.m. via teleconference. The Town publicized the potential business license modernization ballot measure and the July 25 informational workshop via the Town website homepage, weekly Newsletter, multiple posts on the Town's official social media accounts (Nextdoor, Facebook, Instagram, Twitter, and LinkedIn), and a postcard mailing. The postcard went out to every business the Town has on file and was mailed to a total of 5,167 valid business addresses with receipt occurring between July 15 and 21.

The community meeting provided an opportunity for Town residents and businesses to learn more about the potential business license modernization, discuss each of the proposed options under consideration, ask questions, and provide feedback. The materials from the webinar are available at [www.LosGatosCA.gov/BLModernization](http://www.LosGatosCA.gov/BLModernization). Though lightly attended, the community answered a series of Zoom poll questions following the initial staff presentation:

- 75% felt the Town should update the business license tax.
- 100% felt the Town business license program should be equitable.
- 100% preferred the proposed Model 3.

DISCUSSION (continued):

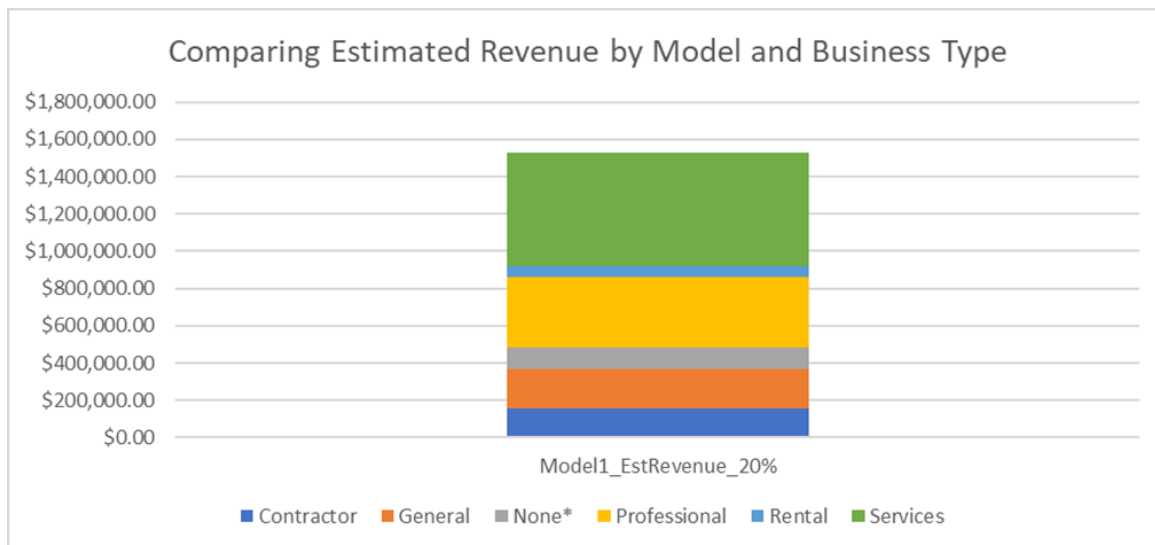
After further discussion and a question and answer session, the poll was launched again with an additional participant and the following results:

- 60% felt the Town should update the business license tax.
- 100% felt the Town business license program should be equitable.
- 20% preferred the proposed Model 1 and 80% preferred the proposed Model 3.

In addition to the community meeting and other outreach efforts, staff sent emails directly to the five largest businesses discussed within Model 3 and also had separate discussions with community stakeholders including the Los Gatos Chamber of Commerce and Netflix.

*Analysis of Potential Models*

**Model 1** – Would retain the existing structure while modifying the tax amounts for each category by 20%. The drawback of Model 1 is that the tax remains regressive. In fact, because it would increase the flat fees, it becomes more regressive. In addition, since 1991, inflation has risen approximately 117% or five times as much as the recommended increase. The advantage of this model is that the increases for each business type are minimal. This Model would increase revenues approximately \$255,000 annually primarily from the Services category (\$101,000).



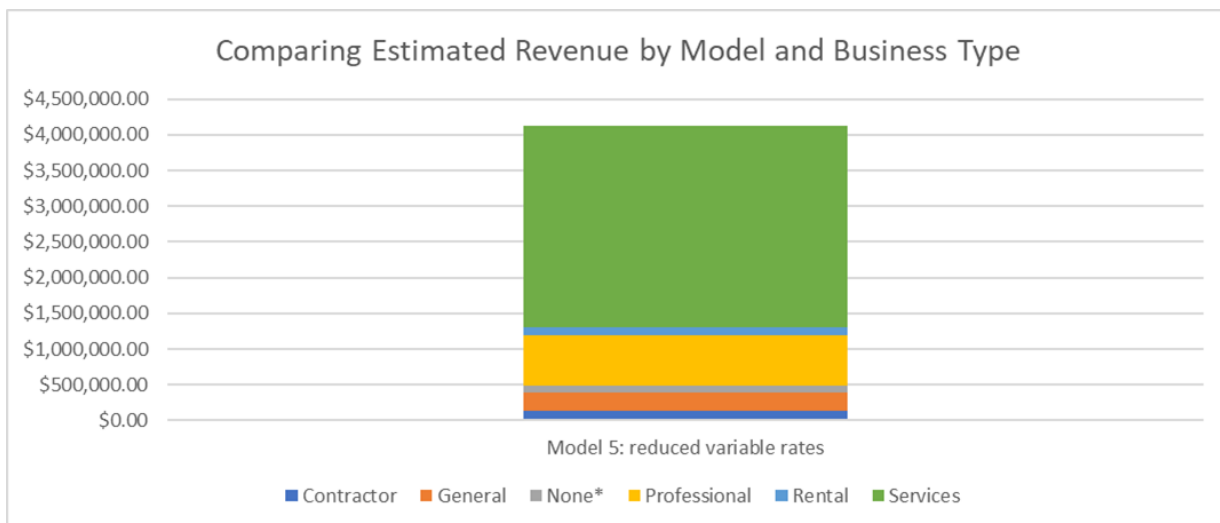
**Model 2** – Introduces the concept of converting the Town tax to a gross-receipts model for all businesses. This means that every business would pay based on their gross receipts, utilizing different single rates for five different business classifications. This Model also lowered the

DISCUSSION (continued):

annual base rate to a uniform \$25 flat rate for the first \$25,000 to provide some additional tax relief for smaller businesses. This model affords the most flexibility for increasing revenues

while accommodating certain business categories with differing rates. This Model would increase revenues approximately \$2,861,000 annually primarily from the Services category (\$2,321,000).

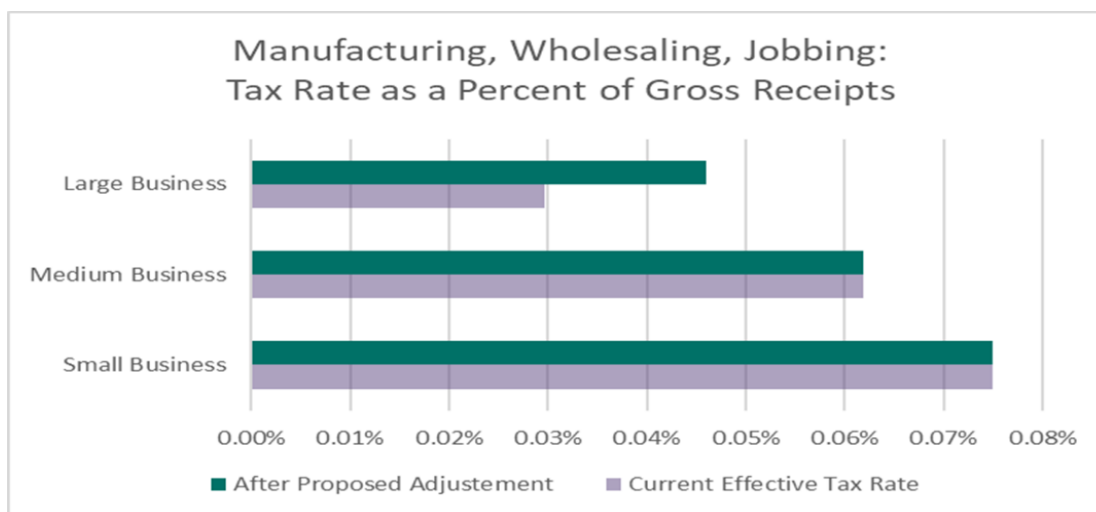
Categories	Base Rate	Gross Receipts Tax Rate
General Commerce/Retail	\$25 Flat Rate per Business (first \$25,000 in Gross)	0.0005 X Gross
Services		0.001 X Gross
Contractor		0.001 X Gross
Professional		0.002 X Gross
Rental Commercial/Residential		0.002 X Gross



**Model 3** - Maintains the existing gross-receipts structure for Manufacturing, Wholesaling, and Jobbing except for updating the rate of \$75.00 for each \$550,000 more than \$12,000,000 to \$300 for each \$550,000 more than \$12,000,000. For purposes of this schedule Manufacturing refers to any manufacturing or processing of goods, wares, merchandise, articles, or commodities. Wholesaling refers to the sale of goods, wares, or merchandise for the purpose

DISCUSSION (continued):

of resale. Jobbing is the business of selling goods, wares, or merchandise to wholesale merchants for resale at wholesale. This model also includes the E-commerce category which are commercial transactions conducted electronically on the internet. This model would have the least change to the existing structure, only impacting businesses with gross receipts above \$12,000,000, while helping to offset some of the inequities associated with the lower effective tax rates of larger businesses presented earlier. This Model would increase revenues approximately \$1,100,000 annually.



CONCLUSION:

The Finance Commission should review the Business License model analysis and business outreach input and recommend the Town Council pursue a ballot measure with one of three model options to modernize the current tax structure.

COORDINATION:

This staff report has been coordinated with the Town Manager, Town Attorney, and Interim Finance Director.

FISCAL IMPACT:

None. This item considers a source of potential additional revenue for the Town.

Attachments:

1. Public Comment