



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 10/19/2021

ITEM NO: 9

DATE: October 11, 2021
TO: Mayor and Town Council
FROM: Laurel Prevetti, Town Manager
SUBJECT: Receive the Town Finance Commission Recommendation and Authorize the Town Manager to Issue a Request for Proposals (RFP) for Consultant Services to Evaluate and Recommend Modernization Options for the Town's Business License Tax Program.

RECOMMENDATION:

Receive the Town Finance Commission recommendation and authorize the Town Manager to issue a RFP for consultant services to evaluate and recommend modernization options for the Town's Business License Tax Program.

BACKGROUND:

On September 13, 2021, the Town Finance Commission reviewed the Town's Business License Tax Program. The Town's Business Tax Ordinance was last adopted on June 3, 1991 (Attachment 1). The Town Business License Tax program is governed by Chapter 14 of the Los Gatos Town Code: [Los Gatos Town Code - Business Licenses](#). The Articles I through III of the business license chapter are enacted solely to raise revenue for municipal purposes and are not intended for regulation. The Town currently has 2,557 businesses in active pay status and another 2,577 registered on the books of which it is estimated that a third may still be active in Town. This Tax, which is charged to business owners, currently generates approximately \$1.4 million annually.

DISCUSSION:

Having not been updated in over 30 years, the current rate structure does not take into account shifts in business models and delivery over the decades. In addition, the current ordinance does not contemplate inflation adjustments or other predetermined structural rate changes, therefore leaving the rates unchanged for 30 years.

PREPARED BY: Arn Andrews
Assistant Town Manager

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

DISCUSSION (continued):

The Town issues different types of business licenses based on the type of activity. The amount of business license tax paid by each business is also based on its business activity because the purpose of the tax is to cover municipal services and infrastructure utilized by the business, its employees, and customers. Fees for activities such as wholesales and manufacturing are charged on a sliding scale based on gross receipts, as is retail, with retail being capped at \$975. These gross receipt activities account for approximately 25% of annual business licenses, while the remaining 75% are flat fee businesses. While the Town Code list different license types, the most common ones are listed below with the appropriate business license tax and fees.

Typical Business License Taxes and Fees			
Business License Processing Fee (Annual)	\$40 at the Time of Establishment/ \$30 at Renewal - Located In Los Gatos \$20 - Not Located in Los Gatos		
Planning Fees - Businesses Located in Los Gatos (One-time)	\$161.20 Home Occupancy Permit - Home Based Businesses \$176.70 Change of Occupancy / \$262.20 Change of Use - Commercial Zoning		
State Mandated Fee (Annual)	\$4		
Type of Business License	Business License Tax - Without Penalty Minimum (Annual)	Business License Tax - Without Penalty Maximum (Annual)	Typical Businesses
Retail (Based on Gross Receipt)	\$75	\$975	Restaurant, Grocery Store , Gas Station, Hair Salon
Wholesale/Manufacturee/Wholesale/Ecommerce (Based on Gross Receipt)	\$150	Based on sliding scale \$4,837.50 for \$12,000,000 in gross receipt plus \$75 for each \$550,000 or fracntion therfor in excess of \$12,000,000	Netflix, Manufacturers
Professional/Semiprofessional (per employee)	\$200	\$200	Medical Doctor, Attorney, Tutor, Massage Therapist, Broker
Support Staff - Professional/Semiprofessional (per employee)	\$15	\$15	Real Estate Agent
Service (per business)	\$100	\$100	Gardeners, Repair Service, Hair Stylist, Janitorial service
Contractor (per business)	\$224	\$224	Licensed California State Contractor

Most cities in the Bay Area and throughout California have either updated their tax structure through local ballot measures or enacted a tax if they previously didn't have one. In California, all taxes imposed by local governments are classified as either general or special taxes and must be put before voters as a local ballot measure for approval. Recent examples of general business tax ballot measures include:

- Daly City – Measure BB 2018 (approved 80.64%)
- Mountain View – Measure P 2018 (approved 71.05%)
- Sausalito – Measure M 2018 (approved 65.42%)
- Berkley – Measure U1 2016 (approved 74.93%)
- Monterey – Measure H 2016 (approved 73.86%)
- San Jose – Measure G 2016 (approved 65.59%)
- Foster City – Measure U 2013 (approved 73.2%)
- Campbell – Measure M 2010 (approved 69.59%)

PAGE 3 OF 3

SUBJECT: Business Tax Modernization

DATE: October 11, 2021

CONCLUSION:

The Finance Commission has recommended that the Town Council consider pursuing the modernization of the Business license Tax schedule adopted in 1991. To better understand the Town's Business License Tax program, the Council should authorize the Town Manager to issue a RFP for the review and recommendation of modernization options for the program.

COORDINATION:

This staff report was coordinated with the Town manager, Town Attorney, and Director of Finance.

FISCAL IMPACT:

There is no cost associated with issuing the RFP. Based on the results of the RFP, staff will return to Council with budget recommendations based on the successful RFP response.

ENVIRONMENTAL ASSESSMENT:

This is not a project defined under CEQA, and no further action is required.

Attachment:

1. 1991 Business Tax Ordinance