



**TOWN OF LOS GATOS  
FINANCE COMMISSION SPECIAL MEETING AGENDA  
JULY 28, 2022  
TELECONFERENCE  
5:00 PM**

*Ron Dickel, Chair  
Kyle Park, Vice Chair  
Stacey Dell, Commissioner  
Rick Tinsley, Commissioner  
Vacant, Commissioner  
Rob Rennie, Mayor  
Matthew Hudes, Council Member*

**IMPORTANT NOTICE**

This meeting is being conducted utilizing teleconferencing and electronic means consistent with Government Code Section 54953, as Amended by Assembly Bill 361, in response to the state of emergency relating to COVID-19 and enabling teleconferencing accommodations by suspending or waiving specified provisions in the Ralph M. Brown Act (Government Code § 54950 et seq.). Consistent with AB 361 and Town of Los Gatos Resolution 2021-044, this meeting will not be physically open to the public and the Council will be teleconferencing from remote locations. Members of the public can only participate in the meeting by joining the Zoom webinar (log in information provided below).

**PARTICIPATION**

To provide oral comments in real-time during the meeting:

- **Zoom webinar.** Join from a PC, Mac, iPad, iPhone or Android device: Please click this URL to join: <https://losgatosca.gov.zoom.us/j/83816469867?pwd=YWdKU09NdzdGSnl5SThjTDVWMFM2UT09>. Passcode: 770155. You can also type in 838 1646 9867 in the “Join a Meeting” page on the Zoom website at <https://zoom.us/join>.
- **Join by Telephone:** Dial: USA 877 336 1829 US Toll-free or 636-651-0002 US Toll. Conference code: 986172.

During the meeting:

- When the Chair announces the item for which you wish to speak, click the “raise hand” feature in Zoom. If you are participating by phone on the Zoom app, press \*9 on your telephone keypad to raise your hand. If you are participating by calling in, press #2 on your telephone keypad to raise your hand.
- When called to speak, you will be asked to provide your full name and your town/city of residence. This identifying information is optional and not a requirement for participation. Please limit your comments to three (3) minutes, or such other time as the Chair may decide, consistent with the time limit for speakers at a Council meeting. If you wish to speak to an item or items on the Consent Calendar, please state which item number(s) you are commenting on at the beginning of your time.

If you are unable to participate in real-time, you may email to [PublicComment@losgatosca.gov](mailto:PublicComment@losgatosca.gov) and in the subject line “Finance Commission Public Comment Item #\_\_” (insert the item number relevant to your comment) or “Finance Commission Verbal Communications – Non-Agenda Item.” Comments received by 11:00 a.m. the day of the meeting will be reviewed and distributed before the meeting. All comments received will become part of the record.

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**RULES OF DECORUM AND CIVILITY**

To conduct the business of the community in an effective and efficient manner, please follow the meeting guidelines set forth in the Town Code and State law.

The Town does not tolerate disruptive conduct, which includes but is not limited to:

- addressing the Planning Commission without first being recognized;
- interrupting speakers, Planning Commissioners, or Town staff;
- continuing to speak after the allotted time has expired;
- failing to relinquish the microphone when directed to do so;
- repetitiously addressing the same subject.

Town Policy does not allow speakers to cede their commenting time to another speaker. Disruption of the meeting may result in a violation of Penal Code Section 403.

**REMOTE LOCATION PARTICIPANTS** *(The following Finance Commission Members are listed to permit them to appear electronically or telephonically at the Finance Commission meeting: CHAIR RON DICKEL, VICE CHAIR KYLE PARK, COMMISSIONER STACEY DELL, COMMISSIONER RICK TISLEY, MAYOR ROB RENNIE, COUNCIL MEMBER MATTHEW HUDES. All votes during the teleconferencing session will be conducted by roll call vote.)*

**MEETING CALL TO ORDER**

**ROLL CALL**

**VERBAL COMMUNICATIONS** *(Members of the public are welcome to address the Finance Commission on any matter that is listed on the agenda at the time the item is called.)*

**OTHER BUSINESS** *(Up to three minutes may be allotted to each speaker on any of the following items, pursuant to the Participation Instructions contained on page 2 of this agenda.)*

1. 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

**ADJOURNMENT**



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

MEETING DATE: 07/28/2022

ITEM NO: 1

Item 1.

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 Assistant Town Manager Holly Young Town Manager Administrative Analyst

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

SUBJECT: Business License Modernization

DATE: July 22, 2022

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):

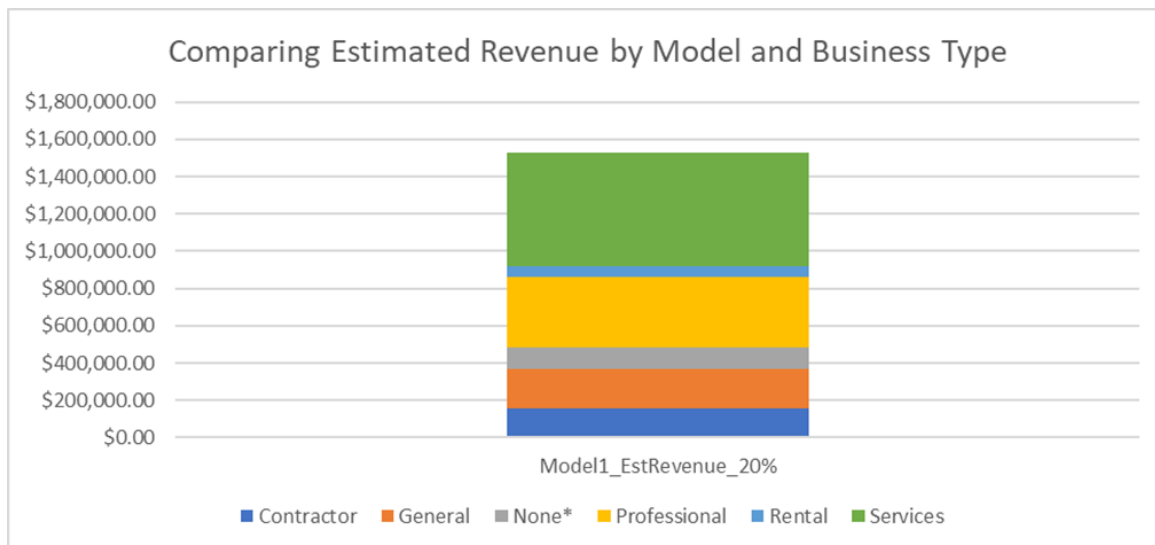
After further discussion and a question and answer session, the poll was launched again with an additional participant and the following results:

- 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).



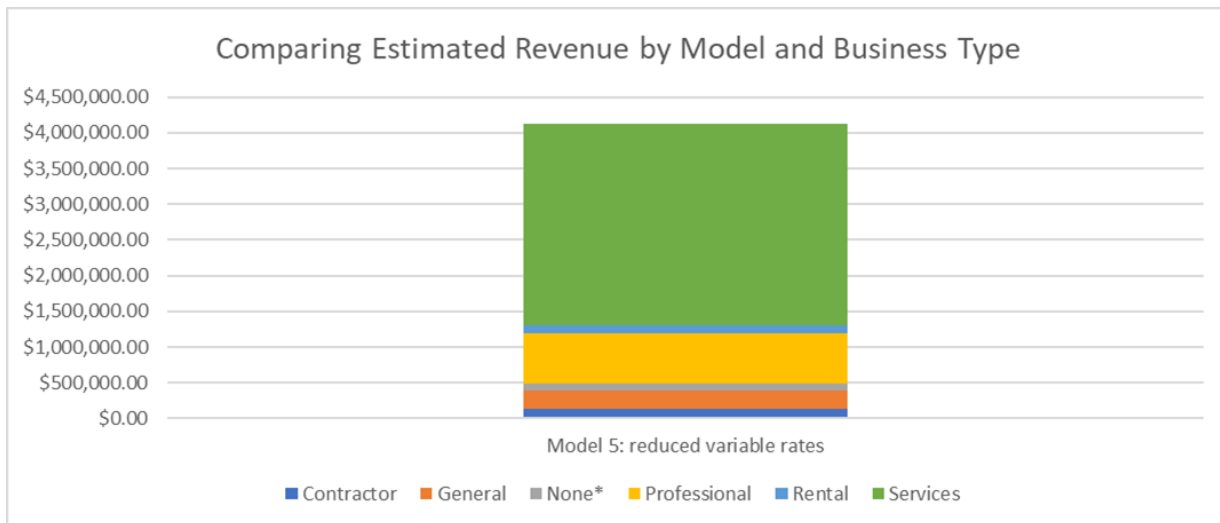
**Model 2** – Introduces the concept of converting the Town tax to a gross-receipts model for all businesses. This means that every business would pay based on their gross receipts, utilizing different single rates for five different business classifications. This Model also lowered the

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



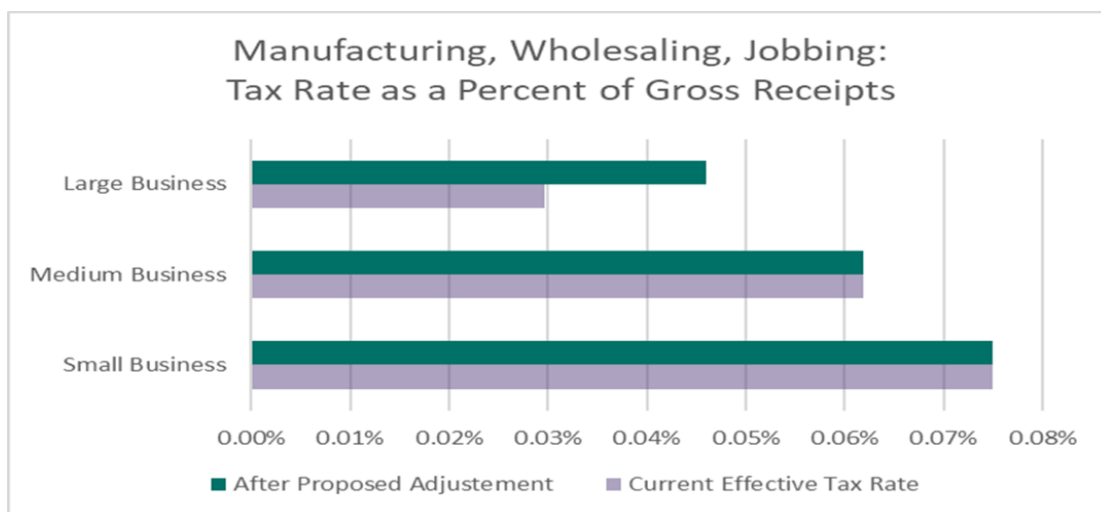
**Model 3** - Maintains the existing gross-receipts structure for Manufacturing, Wholesaling, and Jobbing except for updating the rate of \$75.00 for each \$550,000 more than \$12,000,000 to \$300 for each \$550,000 more than \$12,000,000. For purposes of this schedule Manufacturing refers to any manufacturing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

SUBJECT: Business License Modernization

DATE: July 22, 2022

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

Dear Town Council:

I have three comments regarding your proposed Models for the Business License Modernization program.

1) If you charge smaller businesses what they perceive to be too much or considerably more than they have been paying, some may decide not to get a business license. Especially small Mom and Pop and home based businesses. You will chase them undercover and then lose that revenue. New businesses may decide to go elsewhere. You must make Los Gatos business friendly and welcoming.

2) Locate and require at home businesses to have a business license. Many people now work from home, yet have no license.

3) Basing a license fee on gross receipts is unfair because the fee is based on overall sales receipts, not the profit made.

Example: A Ferrari dealer sells expensive cars and a used car dealer sells inexpensive cars. The Ferrari dealer could sell a few cars and have a large gross receipts record. The used car dealer could sell a lot of cars, have a higher overall profit, but a much lower gross receipts total, thus pay less for a business license than the Ferrari dealer. If you base the license fee on gross receipts, you could potentially be penalizing the person that sells more expensive products than someone who sells less expensive products.

Thank you for asking for feedback.

Sincerely,  
Dennis Grist  
Grist Construction

Hello:

I am a small business owner so the potential changes to fix the regressive tax structure is welcome. My concern as a citizen of Los Gatos is that ramping up the tax on large businesses, like Netflix, should be considered very carefully and not be too aggressive. The whole dollar amount contributed by Netflix and other large organizations, regardless of the tax rate in terms of percentage, I would imagine makes up a material portion of the cash coming into the Town of Los Gatos to support the many programs, services, and infrastructure.

Said more simply, don't scare away or anger the big tax contributors with a material increase in tax rates. As evidenced by many large companies in the Bay Area over the past few years, they will take action and move to TX or FL, or some other tax-friendly jurisdiction.

Kind regards,

Casey Pittock



I am not in favor of raising the business license tax. If you must do this Model 4 would be preferred. I am a small business with fluctuating revenues which make financial planning difficult. Raising the BL tax based on gross receipts would cause me great financial harm as ALL COSTS within the business are closely scrutinized to ensure that we can continue to operate during economic downturns. A large BL tax increase would be difficult for my small business to absorb as we have multiple entities that we must pay fees to in order to operate in California's highly regulatory and competitive environment.

Michael Shields, CCIM

Apartment / Investment Broker / Founder

[Silicon Valley Multifamily Group](#)

To Whom It May Concern,

If there are any tax increases, I would ask you to exclude the medical specialties. Our reimbursements are going down and we can't even recruit new doctors to this area. Most of the primary care doctors in practice in Los Gatos have dropped Medicare or have gone concierge. In 10 years there will be an even worse shortage of specialists in this area. So please consider excluding Medical businesses from this tax hike.

Dr. Manjula Noone

Just received notification of potential increases in our Town's business license fees. If I read this correctly, currently I am paying \$975/year for my license. If my gross receipts are \$25,000,000 annually according to the charts I'm seeing, that results in a license fee of \$37,500...I believe that is outrageous. You know that in the automobile business, we don't have the same margins that another retailer might have. To base the fee solely on gross receipts is highly unfair. There should be some sort of setoff regarding the sales tax that a business generates for the town. I would embrace a slightly higher annual fee, but nothing like what I'm seeing. There should be a cap on the fee, certainly no more than \$2000/year.

John Moore

Moore Buick GMC

How would the modernization in models 2-4 look like in practical terms:

- For example, would the town licensing process get coupled to the CA and/ or federal tax return of the business?
- And of which year? It seems the past year would make sense, then the town license renewal would continue to take place at the end of the year, based on the return of the past year.
- If it is meant for the actual year of the town license, what would happen if the business has filed for an extension?

Overall, as a two-people husband-and-wife consulting business, we understand and support the rationale behind the modernization plans. The details will just have to be worked out.

Thank you for your consideration.

Gabi Neubauer

**Dr. Gabi Neubauer**

VP Semiconductor Technologies

AFGN LightVantage

Hi Los Gatos, I work from home and have a HR Consulting Business.

Will our fees be based on our gross income? If we earn 60k what will the estimated business license fee be?

If the fees are NOT based on gross income what will the fees be based on in the future?

I don't like the idea of having to pay more money, the pandemic has taken its toll on my business and now we are dealing with inflation.

This is not the time to be raising fees!! I am sure alot of businesses will feel the same.

Let me know. Thanks, Sylvia Carrillo

**Sylvia Carrillo, PHR**

**Human Resources Consultant**