



Agenda Report

25-367

Agenda Date: 4/29/2025

REPORT TO COUNCIL

SUBJECT

Action on a Resolution to Authorize Business License Tax Adjustment for Annual Inflation Increase Effective July 1, 2025

COUNCIL PILLAR

Deliver and Enhance High Quality Efficient Services and Infrastructure

BACKGROUND

The City of Santa Clara's Business License Tax was last updated through a voter-approved ballot measure on November 8, 2022 (Measure H). Prior to this, there had been no business tax adjustments for 30 years. The approved measure implemented a new tax structure effective July 1, 2023, with an annual inflation adjustment mechanism outlined in Section 3.40.160 of the Santa Clara City Code (City Code). This ensures that the business tax keeps pace with inflationary changes to support essential city services.

DISCUSSION

The Business License Tax is structured to provide equitable revenue contributions from businesses operating in Santa Clara while ensuring that tax burdens remain aligned with inflation. The 2022 voter-approved Measure H established a tax framework that allows for an annual inflation adjustment based on the Consumer Price Index (CPI) for the San Francisco-Oakland-Hayward Area. As mandated by Section 3.40.160 of the City Code, these adjustments are subject to approval by the City Council and are capped at a maximum increase of 5% per year to prevent excessive financial impact on businesses.

For Fiscal Year 2025-26, the February 2025 CPI report published by the U.S. Bureau of Labor Statistics (BLS) reflects an annual inflation rate of 2.7%. Accordingly, it is proposed that Business License Tax rates will be adjusted by 2.7%, resulting in the following changes:

- The current tax of \$45 per employee will increase to \$46.22 per employee.
- The current tax of \$15 per rental unit will increase to \$15.40 per unit.
- The annual cap of \$350,000 per business will increase to \$359,450 to reflect the 2.7% CPI adjustment.

The Business License Tax provides funding for public safety, infrastructure maintenance, economic development programs, and community services. By implementing this inflation-based increase, the City upholds its commitment to long-term fiscal sustainability without imposing sudden, large-scale tax hikes.

This annual CPI-based adjustment is critical to preventing the erosion of City revenue due to inflation while ensuring that businesses continue to contribute fairly to the cost of maintaining high-quality city

services.

As contemplated by City Code Section 3.40.250, the Director of Finance Department is currently working on drafting rules and regulations to facilitate the implementation of the Business License Tax. Topics addressed include operational and administrative details for staff to implement the Business License Tax Program, and provisions for providing notice to affected taxpayers. Once finalized, these rules will be brought back for Council consideration and approval.

Although a formal amendment to the City's business license tax ordinance is not legally required, the City Attorney's Office will work with Finance staff and the City Clerk to add a note within the City Code sections containing the original business license tax rates indicating that any new tax rate approved by the City Council for the applicable fiscal year will be posted on the City's business license tax webpage.

ENVIRONMENTAL REVIEW

The action being considered does not constitute a "project" within the meaning of a California Environmental Quality Act ("CEQA") pursuant to section 15378 (b)(4) of Title 14 of the California Code of Regulations in that it is a fiscal action which does not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment.

FISCAL IMPACT

Based on the estimated total business tax revenue of \$6 million per year, the 2.7% CPI-based increase will result in an additional \$162,000 in revenue for FY 2025-26.

COORDINATION

This report has been coordinated with the Finance Department and City Attorney's Office.

PUBLIC CONTACT

On April 2 and April 9, 2025, notices of the proposed increase were published in the Santa Clara Weekly in the manner set forth in Government Code Sections 6062a and 66018.

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall Council Chambers. A complete agenda packet is available on the City's website and in the City Clerk's Office at least 72 hours prior to a Regular Meeting and 24 hours prior to a Special Meeting. A hard copy of any agenda report may be requested by contacting the City Clerk's Office at (408) 615-2220, email clerk@santaclaraca.gov or at the public information desk at any City of Santa Clara public library.

RECOMMENDATION

Adopt a resolution authorizing the annual inflation adjustment for the Business License Tax, effective July 1, 2025, as allowable under Santa Clara City Code Section 3.40.160

Reviewed by: Kenn Lee, Director of Finance

Approved by: Jovan D. Grogan, City Manager

ATTACHMENTS

1. Resolution No. 22-9130

2. Resolution Adjusting the Business License Tax to be effective July 1, 2025
3. RTC 22-936