



May 26, 2022

To: Cynthia Bojorquez,
Assistant City Manager
City of Santa Clara

Fr: Shawn Spano,
Public Dialogue Consortium

Re: Report on Community Engagement Listening Sessions

Background

This report summarizes the work that the Public Dialogue Consortium (PDC) completed in eliciting input and feedback from members of the business community and the community at large on Santa Clara's Fiscal Sustainability Strategies and the potential Modernization of the Business License Tax (BLT).

Outreach

Staff conducted extensive outreach to business groups, employers, and community groups, organizations, and individuals to invite participants to the Listening Sessions. Multiple platforms were utilized, including targeted outreach to the 8,500 registered businesses in the City and the City's Commission and Board members. Staff also worked closely with the Chamber of Commerce to conduct a Listening Session devoted specifically to their members, with the Chamber taking the lead on extending the invitations and securing the location.

Four Listening Sessions were conducted between February and May 2022 with 40 participants total:

- February 3 - for the business community and community at-large (6 participants)
- May 5 - for Chamber of Commerce members (7 participants)
- May 12 - for City Commission and Board members (12 participants)
- May 19 - for the business community and community at-large (15 participants)

Listening Session Format

The February 3 and May 5 sessions were designed specifically to elicit input on the Modernization of the Business License Tax. While information about the City's budget and fiscal sustainability efforts were presented, participants were asked to share their views of the BLT and their preferences for how it should be structured.

In addition to feedback on the BLT, participants at the May 12 and May 19 sessions were also asked to provide feedback on the City's Fiscal Sustainability efforts and to identify the City

service and program priorities that are most important to them and their groups or organizations.

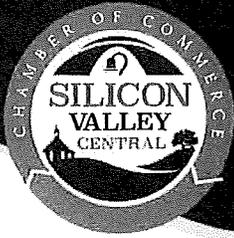
The focus group format was similar for all four of the Listening Sessions. The PDC facilitator welcomed the participants, previewed the session purposes and agenda, and asked participants to provide brief self introductions. Kenn Lee, City Finance Director, then presented information on the City's fiscal condition, the budget-balancing actions taken to date, and the Modernization of the BLT. The presentation for the February 3 and May 5 sessions differed slightly from the one presented at the May 12 and May 19 sessions to reflect the broader scope of the topics covered. Following the presentation, participants engaged in facilitated discussion and dialogue in order to provide their input and feedback.

Results and Summary Themes

Overall, Listening Session participants expressed the view that *a modernized BLT is either desirable for Santa Clara or is moderately or minimally acceptable*. The different positions expressed were dependent on the underlying values guiding the BLT, how it will be structured, and the other fiscal sustainability and cost-saving efforts the City pursues.

1. Key values that should guide modernization of the BLT:
 - It should be fair and equitable for all businesses, accounting for the range of different types of businesses in the City (e.g. large vs. small, self employed, etc.)
 - It should be simple and easy to administer for both the business and the City
 - It should take into account changes in the work environment from COVID (virtual and remote work vs. in-person)
 - The rate and administration of the BLT should not be a disincentive for attracting new business to the City, or a factor compelling current businesses to re-locate outside of Santa Clara
2. How the BLT should be structured:
 - A tiered, employee head count is preferred
 - The current \$500 cap on employees is not seen as fair, with large businesses being given an advantage over small businesses
 - Basing the tax on gross receipts is not seen as fair and can be a disincentive for business growth
 - There needs to be a fair and accurate way to define and measure square footage
 - Consider how to tax remote/virtual and hybrid employees
3. The need to seek creative solutions and alternative sources of revenue:
 - Encourage retail and implement a vacant space tax
 - Add a utility tax for Data Centers
 - Allow for Cannabis Dispensaries
 - Increase fees to ensure cost recovery
4. Ensure City services and programs are delivered efficiently and effectively:

- Prioritize services in order to ensure that essential services are sufficiently resourced
- Ensure that services are being delivered in the most cost-efficient and cost-effective way possible
- Focus on maintaining services rather than expanding them during times of budget shortfalls
- Public Safety and Libraries are priority City services



SILICON VALLEY CENTRAL CHAMBER OF COMMERCE

June 18, 2022

Dear Mayor and Council,

The Silicon Valley Central Chamber of Commerce (SVC Chamber) **opposes any dramatic increase in the Business License Tax**, such as the nearly 700% increase that is being proposed. Similarly, **we oppose any harmful tax on small and medium-sized businesses**.

Working Together:

The SVC Chamber has appreciated the opportunity to work with the City of Santa Clara this year as we evaluate the impact of new taxes or increased fees on our members and the business community in general. We met with City staff at the SVC Chamber office on April 8 and co-hosted a focus group at Roche Diagnostics on May 5 for our members and others in the business community.

In anticipation of your discussion of potential business taxes at your next City Council meeting, we would like to provide you with additional recommendations from the business community.

Business License Tax:

The SVC Chamber can be supportive of increasing and updating the City of Santa Clara's Business License Tax, which has not been changed for decades. However, such increases and updates should be modest and reasonable.

The following are modest and reasonable elements the SVC Chamber would support:

- **Reasonable Increase:**
City staff has suggested one scenario that would result in an almost seven-fold increase in the Business License Tax. During these uncertain times, when we have rising interest rates and many of our businesses find it challenging to recruit and retain employees, that dramatic of an increase for our local businesses is potentially devastating. We could be supportive of a smaller overall increase that no more than doubles the current total revenue collected from the current Business License Tax.
- **Employer Cap:**
We support a cap on the total tax that any one employer would pay. To be competitive with other local cities, we suggest that the cap be substantially lower than the County average so the City of Santa Clara can be competitive and remain a business-friendly city.
- **Inflation Index and Cap:**
It is appropriate to increase the tax incrementally each year indexed to the rate of inflation. That would be helpful to the City while providing businesses certainty and predictability. Should indexing be adopted, it is critical to cap the index rate as well below 5.0%. High inflation creates problems for many businesses, as we see in the economy today. Our local businesses should not be subjected to extra financial burdens in the future from City Hall due to dramatic increases in Business License Taxes caused by high inflation.

Additional Revenue:

The City could use more reserves or “rainy day” funds to help balance its budget. Clearly, we are all suffering from an uncertain economy with supply chain problems, high fuel costs, rising inflation, greater borrowing costs, and the difficulties in recruiting and retaining employees. This is the definition of a “rainy day.” However, we are optimistic that our economic challenges will be temporary. Furthermore, with the numerous major developments taking place in the City of Santa Clara, we believe that increased economic activity will generate additional tax revenues in the not-too-distant future.

Therefore, we request that you use “rainy day” funds to plug what is likely to be a short-term financial challenge. This is much preferred over dramatically raising business taxes which may likely force Santa Clara employers to look elsewhere for expansion or relocation opportunities. That reaction would have a potential long-term negative impact on our city.

Employee Head Tax:

We are opposed to an employee head tax because we think it will have a detrimental effect on economic development and hurt the City of Santa Clara’s reputation for being a business-friendly city. A head tax is also difficult to administer and monitor, especially when many companies are allowing their employees to work remotely.

The current Business License Tax accounts for the varying size of City of Santa Clara employers by defining employee headcount within range categories. Updating the Business License Tax along similar lines is a more sensible approach that is administratively easier for both city government and employers.

Conclusion:

Finally, the SVC Chamber is willing to continue to work with the City before something is put on the November 2022 ballot. If we can come to an agreement sometime during the month of July to meet the ballot deadline, we would consider supporting a measure that meets the criteria as stated herein. Conversely, if we believe a ballot proposition is harmful to local businesses, and ultimately the City of Santa Clara, we must oppose it while encouraging others to do so as well.

Respectfully,



Christian D. Malesic, MBA, CAE, CMP, IOM
President / CEO

Cynthia Bojorquez

From: joe_pon@amat.com
Sent: Thursday, June 9, 2022 10:43 AM
To: Cynthia Bojorquez; Kenn Lee
Cc: erika.l.edgerly@intel.com; NFinkle@nvidia.com; vrocha@svlg.org; dkostenbauder@svlg.org; cynthia@cnjames.com
Subject: Follow-up on BLT Discussion

Dear Cynthia and Kenn:

Thanks for making the time to meet with us on Tuesday. We appreciate you previewing some of the City's thinking about a new Business License Tax and listening to our comments.

We echo the direction you received from Council that a new tax should be equitable, business-friendly, and mindful of the impact to small businesses—and that the City should work collaboratively on the new BLT. As we mentioned during our meeting, we believe we can work with the City to arrive at a modernized BLT that meets the needs of the City and of employers.

To recap a few of the key points we made during our discussion:

1. The goal should be to have a simple counting mechanism that is easy to administer by both the City and the companies.
 - a. It needs to correctly capture the number of our employees who actually work in Santa Clara (and not the ones who work in neighboring Silicon Valley cities, or out of the area, who are taxed at those locations).
 - b. We aren't certain that "EDD data" will do this efficiently.
 - c. Perhaps the City would be open to "self-reporting" by companies with multiple locations throughout Silicon Valley.
 - d. Need to consider hybrid workers and remote workers who only come to campus a few times a month (acting more like business travelers)
2. We urge the City to consider a 'max cap' like San Jose so that companies that plant their roots in Santa Clara believe they can also grow in Santa Clara and will continue to be welcomed.
 - a. It appeared in our discussion that staff was thinking about a cap somewhere around the 2,500-employee mark in your two options.
 - b. A cap at that level would represent a 500x increase in BLT—pretty substantial.
3. For competitiveness reasons, we would urge the City not to make Santa Clara the "business tax leader" for Silicon Valley—it's important to consider the modernization of the BLT in the context of what neighboring cities, like San Jose, are charging while still addressing the structural deficits in the City's budget.

Again, we hope you found the conversation useful. Please do continue to share with us your ideas as they come into clearer focus.

Thanks.

Joe Pon | **APPLIED MATERIALS**

Erika Edgerly | **INTEL**

Ned Finkle | **NVIDIA**

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**Santa Clara Listening Session
Meeting Notes
May 19, 2022**

Participants

Edesa Bitbadal - Consultant for the data centers
CF - resident
Brenda Craig - Business Licensing, City of Santa Barbara
Kristine Evon - resident
Mark Gilley - DEI Task Force, City of Santa Clara
Jan Hintermeister - resident
Stanley King - resident
Alexander Moore - business owner
Teresa O'Neill - Silicon Valley Chamber of Commerce
Peter Tran - resident
Linda Zazzara - resident

City Council

Suds Jain - Vice Mayor, City of Santa Clara
Kathy Wantanabe - Council Member, City of Santa Clara

Staff

Cynthia Bojorquez - Assistant City Manager
Kenn Lee - Director of Finance
Maria Le - Communications & Outreach Manager

Fiscal Sustainability Presentation

Ken Lee, Director of Finance

Main Themes of Participant Questions and Comments

- Business license tax modernization is desirable for Santa Clara
- Focus on maintaining services rather than expanding them during times of budget shortfalls
- Consider other revenue streams to cover the deficit, as well as other ways to calculate the BLT such as square footage
- Set the BLT rate to be equal to or competitive with surrounding cities in order to keep businesses in Santa Clara

Participant Questions and Comments

- What is the definition of essential services?
 - A: Residents were recently polled to inform service priorities. A few years ago the City Manager's office conducted a similar survey.
- Santa Clara is an outlier and we need adjustments to support our infrastructure. Maintenance should be the focus during tight budget times, rather than looking to expand services.

- Shopping local is something we can do as residents to support our businesses and city.
- Parks and recreation opportunities are important to our city.
- A modernized business license tax seems like a good idea, Ken has made a strong argument in support of it. Years ago we had a development fee for parks and I remember feeling shocked that cities all around us were charging use fees for parks and we were not. I have the same reaction to learning that cities around us are collecting much high revenues via a BLT than Santa Clara is. It seems to make sense for our city.
- Santa Clara has relied on a robust business community and we have kept fees very low. A problem I see is fees and taxes were put in place without a CPI to increase with inflation. Most business owners see a CPI as reasonable, adjusting with the cost of living. We need to ensure we are recovering full costs for the services we provide as not all of our shortfall can be covered with a BLT.
- We need to consider an employee count tax carefully, as well as how we define employees considering remote and hybrid workers. How do we ensure we do not impact small businesses disproportionately? Should we consider a square footage fee instead?
- Has the city considered a BLT based on square footage rather than ee count?
 - A: Yes, we have looked at it. Our focus is on employee count for a few reasons 1) the ease of understanding the tax; 2) changing our current methodology changes would require transition and outreach that increase short term costs and would need to be explained to voters; 3) neighboring cities that are based on square footage have a few large resident businesses with a lot of office space.
- If we were to double everyone's current tax it would only result in an additional \$900K in the face of a \$20M deficit. It seems we need to look at other revenue streams to cover the deficit.
- Staff is doing a great job, Santa Clara is doing better than neighboring cities by bringing people into the process. Process is important, Santa Clara is listening to community members rather than leading the community to an end.
- A square footage tax is much more complex and can create an accounting nightmare for staff and businesses. Head count tax in general is much easier to calculate and administer.
- Look at other cities to see what they are charging and do not go above and beyond this so that you keep businesses in your city. Include a cap so businesses can forecast what their expenses will be.
- I work for large employers who when faced with additional taxes based on an employee count, their answer is to move out of the state. When adding taxes to facilities, I do not hear that as much.
- Has anyone reached out to various business tiers to ask for their opinion on the BLT?
 - A: Yes, staff has worked hard to engage with all levels of businesses in the community. Staff has gone out to various businesses and advisory committees to hear from as many stakeholders as possible. If there are additional businesses or groups to engage, please let us know.
- I am concerned that you are not hearing from small businesses and English as a second language employers. I want to make sure all businesses in Santa Clara have the opportunity to engage.
 - A: Good feedback, we can look at translating some of our materials.

- A: We have had three listening sessions (one organized by the Chamber of Commerce), we have also sent mailers out to all those who currently hold a business license tax to invite them to participate in the listening sessions and survey. This went out to 8500 businesses.
- In Santa Clara, business license are budgeted at merely 0.4% of the general fund. How does this compare to the neighboring cities?
 - A: We are near the bottom when compared to other cities, others are closer to 2.5% for neighboring cities up to 15% for San Francisco.

**Santa Clara Listening Session
Meeting Notes
May 12, 2022**

Participants

Debbie Tryforos - Library Board of Trustees
Kim Messmer - resident
Stan Messmer - resident
Patricia Leung - Historical Landmarks Commission Chair
Diana Torres - 49ers
Nancy Toledo - volunteer, resident
Rob Mayer - resident, architect, former planning commissioner
Adam Thompson - lifelong resident
Wanda Buck - Senior Advisory Commission for Santa Clara, resident
Mario Bouza - resident
Jonathon E - Library Board of Trustees
Art B - resident

Staff

Cynthia Bojorquez, City Manager
Kenn Lee, Director of Finance
Maria Le, Communications & Outreach Manager

Fiscal Sustainability Presentation

Ken Lee, Director of Finance

Key Themes from Participant Questions and Comments

- A modernized BLT is viable and should be applied in a way that is equitable and does not negatively impact small businesses.
 - Encourage desirable retail to locate in Santa Clara to draw more sales tax revenue
 - Consider how to tax remote and hybrid employees
 - Consider raising the cap of \$500 to capture more revenue from large businesses
- City Departments should look internally to:
 - Prioritize services
 - Ensure that services are being delivered in the most cost-efficient and cost-effective way possible
- There is a need for creative solutions and alternative sources of revenue.
 - Encourage Retail and Implement a Vacant Space Tax
 - Add a Utility Tax for Data Centers
 - Allow for Cannabis Dispensaries
 - Increase fees to ensure cost recovery
- Public Safety and Libraries are priority services.

Participant Questions and Comments

- Q: Taxes and business licenses seem like two different things. What do you mean by a business license tax?
 - o A: They are one in the same in this case.
- Timing is problematic right now. Everyone needs money right now to keep up with expenses and costs. It is a better strategy to cut costs rather than trying to raise costs and revenues.
- Keep safety at the forefront of service and budget priorities, but maybe we need to defer some of the upkeep of our city.
- I do not understand with property values increasing how this is not an increased source of revenue.
 - o A: We are receiving more property taxes, however there is a 2% cap on the growth
- I am a sole proprietor who works out of my house, I have projects in many nearby cities. I am required to purchase business licenses for each city I do projects in, which is starting to add up and become onerous as I do not even visit the cities I do project in. It feels like I am being pecked to death. It doesn't seem right that I pay as much as those who operate their businesses full time in a city.
- I agree with the approach to cut the budget and salaries to stay within our budget rather than raise business taxes, I know this is a delicate issue.
- In Sunnyvale they train first responders to respond as both police and fire needs. I am unsure if this would work, but it is a creative solution.
- Are other cities with more vibrant downtowns experiencing the same budget shortfalls? I work on the downtown commission and have been working for decades on revitalizing our downtown. I think vital town centers attract more people and revenue.
 - o Neighboring cities with more vitalized downtowns are also facing deficits
- What is the percentage of TOT tax that funds Santa Clara?
 - o It used to be 20% of total revenues, at the worst part of the pandemic it was down 90%, it is still down 60% or so.
- For years I was an independent photographer working out of my home, I am concerned about the business license tax impact on small businesses. It is hard for a small sole proprietor who doesn't make much income to increase their business license tax. At the same time, a cap of \$500 seems quite low for large companies and businesses who use a lot more infrastructure than someone like me who is a small business owner with just me.
- I have lived here for over 20 years, I understand we need revenues. I see former commercial properties along El Camino turning into residential units. It doesn't make sense to me that large residential rental buildings are taking over the commercial zone.
- It is going to take more than a small increase in the BLT to cover the deficit as the TOT revenues are not going to come back. Business travel will never rebound to what it was before.
- Levi Stadium is the biggest problem and drain on our city. It sits there empty most days of the year and drains our revenues. We are stuck with this stadium, and we need to generate more revenue out of this rather than out of small businesses.

- We need to look at this in a multipronged way. I do not agree with cost recovery methods of increasing fees for developers as this encourages people to build without permits. This is a recent and real problem we are addressing.
- I disagree that business travel will not rebound as both my husband and I are having to travel again for work. Our travel budget within my company has increased, some of it is last minute and therefore we pay the highest prices. We are encouraged to be working together face to face again.
- I am interested in the unfunded projects, we have many projects no being considered (Morse Mansion, Berryessa Adobe Building - a heritage building). We can only defer maintenance so much.
- Because we fund police and fire with a majority of our budget, we should be looking for more creative solutions in this part of our budget.
- Q: Are we thinking to tax total employees? What about remote employees? Would it be just those working locally or all?
 - o A: Working remotely is a new trend, some cities are looking at EDD and payroll data. This could be a potential for us to explore more.
 - o I work in HR and deal with payroll and we are looking at a person's residential address if they are a remote worker to "tag" them for payroll.
- How do we sustainably update the BLT for inflation? We can look at taxing different entity types in different ways (sole proprietors vs corporations), and doing a sliding scale based on revenues.
 - o A: Other cities have a CPI that adjusts with inflation. We do not currently have this in place, so the revenues are still at the same levels they were 30 years ago.
- We have not addressed our BLT for a long time. It seems like you are pushing the BLT really hard right now. We need a balance, how much does it cost for what we are getting? The police have military grade equipment that is extremely costly. We need to look at purchases we have made and continue to make to ensure we get real value for our tax dollars.
- We also need to be creative about our revenue streams. Right now we need to maximize the value of what we have in place, like Measure J (which I opposed). Creative solution I have are:
 - o The swim center used to host international events, the BMX track can host regional and national events. These are the programs we need to nurture to draw people and revenue to our city. We are removing commercial property in favor of housing, taking away these potential revenue streams.
 - o We need a scale and equitable tax that does not tax small businesses into oblivion. Have you done a study to see what the revenues of a BLT would be versus potentially lost revenues if people move? Taxing the largest businesses makes the most sense.
 - o I like the idea of a utility tax on the data centers. They provide a great service, but they take up a lot of land and do not provide a lot of jobs. Santa Clara has made a huge investment in our public utility; this is an asset we need to capitalize on.
 - o We need to do a scaled parcel tax for largest parcels, and look at land lease taxes.

- Unoccupied tax is another option. Large developments need to include retail in their housing structures. Empty housing and commercial spaces should be taxed.
 - Look inward, manage budgets, make cuts.
- It's about time we modernize our BLT, I have been in business here since 1975. Our BLT is the lowest in the area and needs to be brought up to date.
- We should tax the data centers and all of the space they are using while they do not generate jobs.
- It is important to maintain our infrastructure, as well as law and order with our police and fire.
- These things will all generate revenues for our city:
 - Property taxes will continue to increase
 - The small businesses generate sales taxes for our city
 - The old downtown will never be like it was, I see the future being around the new development around Levi Stadium
 - Travel is also coming back, so will TOT
- Things will recover, I do agree we need to modernize our BLT.
- We need to become more competitive with our BLT, I do not think companies will leave the area with the increases you are proposing.
- There are areas of revenue we have not tapped into yet:
 - Why are restaurants closing and no businesses want to move here? We don't have good restaurants here anymore.
 - Marijuana dispensaries are profitable, why don't we tap into this source of revenue?
- A BLT is a start, I like the idea of a vacant retail tax as well. There is an incentive for commercial properties to be retail oriented and defer leases for financing reasons rather than starting leases as soon as they can.
- I like the other creative funding ideas being proposed, like dispensaries. We have dispensaries bordering our city as so will suffer if they do bring in additional crime, but we cannot capitalize on this.
- The BLT is a good idea, we just need to ensure we do not squash the smaller businesses as we implement this.
- I also agree that we need to look at the revenues generated by dispensaries. We are naive to think that this is going to generate more problems than revenues.
- I also want to agree with allowing dispensaries as a revenue source for our city. This is a major oversight we are losing revenues from.
- The retail vacancy tax is a great idea. I agree with this as well. There is too much economic incentive for builders to not rent these spaces.
- Permitting fees are getting too high, this does create disincentive for people to get permits.
- I am also in favor of taxing vacant retail spaces as we need to encourage good retail in our community and disincentivize developers to keep places vacant.
- It is unreasonable to think that the stretch of El Camino can stay commercial, it makes sense to add residential hubs close to transportation and services. We just need to encourage good retail to go with it.
- I also like the idea of a data center tax.

- Q: Do we have incentives in place to encourage businesses to open in certain areas? Do we have mechanisms to attract to specific zones?
 - o A: No, this is an interesting idea.
- Q: Is there a quantity of initiatives the city can put on the ballot? Are there costs associated? What if we put a few initiatives on the ballot rather than try to package them together? We do need to pass revenue initiatives.
 - o A: If you put too many initiatives on a ballot at once, it can split the vote and decrease the likeliness of any of them passing.

CHAMBER LETTERHEAD

April 29th, 2022

Cynthia Bojorquez
Assistant City Manager
City of Santa Clara
1500 Warburton Avenue
Santa Clara, CA 95050

Dear Cynthia,

We appreciate the time you and your colleagues took to share with us the City's process to place a business tax on the ballot during a meeting at the Silicon Valley Central Chamber of Commerce on April 8, 2022.

The Chamber will continue to work cooperatively with you as we evaluate the impact of new taxes or increased fees on our members and the business community in general.

With that goal in mind, we will host a focus group on May 5 at Roche for your members and other Santa Clara businesses to attend. Our Chamber Board Chair Christian Pellecchia will attend to communicate our position and answer questions as well if necessary.

To summarize some of the highlights from our April 8 meeting, we ask the following of City staff:

- Communicate the complete financial impact that businesses have in Santa Clara rather than narrowly focusing on the revenue from the business license tax. As you know, businesses pay a substantial amount of taxes in Santa Clara. In fact, almost 40 percent of the sales tax is generated by business-to-business sales according to the City's data. That's about \$24 million per year from just Santa Clara businesses.
- Communicate how our Chamber helped you raise revenues in the past by supporting the ballot proposition to raise the transient occupancy tax.
- Evaluate the potential impact of losing businesses if Santa Clara is considered unfriendly to future business growth.

- Evaluate how businesses, especially small and medium-sized ones, would be impacted by a substantial and sudden increase in the business tax or other fees particularly if it's a 600+ percent increase like one of the options currently being discussed.
- Include in your evaluation the amount of potential revenue from new business and development that is projected to happen in Santa Clara, like the Related project, and the possible new developments from the specific plans.
- Include in your evaluation the size of City reserves and the rationale for not reducing them to accommodate "a rainy day" which we believe is a fair way to characterize the economy today considering the great amount of uncertainty.

Thank you again for working with us on this important issue. We look forward to keeping Santa Clara a business-friendly city.

Sincerely,

Christian Pellecchia
Board Chair

Cc: Kenn Lee, Director of Finance
Maria Le, Communications and Outreach Manager