


10/26/21

Item #4



Study Session

**Presentation on Business Tax
Ballot Measure and Other
Potential Revenue Measures
for November 2022 Ballot
(Deferred from October 19, 2021)**

Item #4
RTC: 21-1525

October 26, 2021

Agenda

- Overview
- Background
- Santa Clara Business Tax Overview
- Procurement Update
- Business Tax Structures
- Other Potential Ballot Measures
- Timeline
- Recommendations

Overview

- February 2021:** Council expressed interest at its Priority Setting Session in updating the City's business license tax structure and ranked it as "Important"
- May 25, 2021:** Staff presented information and a timeline to pursue a business license tax measure for the November 2022 General Election ballot at the Budget Study Session
- June 22, 2021:** Staff presented the business license tax measure information at this City Council meeting

Overview

- At the June 22, 2021, Council meeting, Council directed staff to:
 1. Begin work on a potential November 2022 ballot measure, including exploring other potential revenue measures; and
 2. Agendize a study session for Fall 2021
- This direction was affirmed at the August Council Priority Setting check-in meeting

Today's Goals

- In today's session we are seeking:
 1. Feedback on key priorities for the development of recommendations on possible alternative business tax structures for future Council consideration
 2. Direction on pursuing other potential revenue measures to be placed on the November 2022 ballot

Background

Progress to Date: Budget Balancing through FY 2021/22 and Ongoing Forecast

General Fund Forecast Timeline – COVID – 19 Induced Impact

	January 2020 Forecast	April 2020 Forecast	January 2021 Forecast	April 2021 (With Phase 1)	Ongoing Shortfall w/Adopted Actions
General Fund Shortfall	(\$13 M)	(\$34 M)	(\$42 M)	(\$29 M)	(\$17.6 M)



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Progress to Date: Cost Control Measures Implemented

- Multi-phased fee schedule update
- Hiring freeze, with limited exceptions
- Stricter expenditure controls
- Decreased temporary staffing (down 400 staff or 43%) and removed approx. 400,000 productivity hours
- Organizational capacity loss of approximately 26% through 56.5 reduced full-time positions and considering vacancies – approx. 360,000 productivity hours
- Limited travel and training
- Reduced expenditures for IT, equipment, and vehicle/fleet purchases
- Evaluating current contracts and other non-personnel expenditures



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Where Do We Need to Go

- Continued Fiscal Discipline
- Budget Balancing Actions
- Revenue Growth
- Infrastructure Needs
- Long-Term Fiscal Stability



Santa Clara Business Tax Overview

Santa Clara Business Tax Overview

- All businesses, including those located outside of the city, but operating in the City, must have a license to transact business or occupy space in the city
- Business Tax last updated in 1992
- Business Tax ranges from \$15 to \$500 per company and varies by business type
- No cost escalator
- Current annual revenue of approx. \$0.9 M

Santa Clara Business Tax Overview

Current Rates by Type of Business/Number of Employees

Schedule No. 100 - Commercial/Industrial		
1	Employee(s)	\$ 15
2-5	"	30
6-10	"	70
11-15	"	90
16-20	"	115
21-25	"	175
26-30	"	225
31-40	"	280
41-55	"	330
56-75	"	380
76-100	"	460
101+	"	500

Schedule No. 200 - Professional		
1	Employee(s)	\$ 15
2-3	"	30
4-6	"	70
7-10	"	90
11-20	"	115
21-25	"	175
26-35	"	225
36-40	"	280
41-45	"	330
46-50	"	380
51-55	"	460
56+	"	500

Schedule No. 300 - Manufacturing		
1-3	Employee(s)	\$ 15
4-20	"	45
21-30	"	65
31-50	"	100
51-75	"	135
76-100	"	175
101-125	"	225
126-175	"	280
176-225	"	330
226-300	"	380
301-400	"	460
401+	"	500

Santa Clara Business Tax Overview

Alternate Fees

Ambulance service plus \$15.00 per ambulance used in such service	\$ 45.00
Carnival, per day	150.00
Carnival concession, ride, sideshow, per each, per day	15.00
Christmas tree sales (as defined in SCCC 5.15.030)	150.00
Circus, per day	150.00
Circus concession, ride, sideshow, per each, per day	15.00
Detective agency	150.00

Entertainment permit Class I	
First year	263.00
Annual renewal	210.00
Entertainment permit Class II	
First year	90.00
Annual renewal	75.00
Entertainment permit Class III	
First year	413.00
Annual renewal	360.00
Escort service (personal)	150.00
Escort service (funeral)	150.00



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Santa Clara Business Tax Overview

Alternate Fees

Fortuneteller, (as defined in SCCC 5.45.010)	15.00
Intracity bus service and public transportation	150.00
Itinerant merchant (maximum 190 days)	225.00
Parade vendor (per parade)	15.00
Pawnbroker (as defined in SCCC 5.30.020)	150.00
Peddler (as defined in SCCC 5.05.010)	113.00
Promotional show, per day	150.00

Promotional show concession, ride, or sideshow, per each, per day	15.00
Pumpkin sales lots (as defined in SCCC 5.15.030)	150.00
Seasonal item sales lot (as defined in SCCC 5.15.030)	150.00
Secondhand dealer (as defined in SCCC 5.30.020)	150.00
Solicitor (as defined in SCCC 5.05.010)	113.00
State-licensed contractors	45.00
Taxicab, per vehicle	15.00
Taxicab stand	90.00



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Santa Clara Business Tax Overview

- We have approximately 8,500 businesses with active businesses licenses
- About 6,100 businesses are subject to the employee-based business license tax
 - This equates to approximately 137,000 employees
- The remaining 2,400 businesses are exempt or pay alternate-based fees (e.g., pawn shops, taxicabs, theaters, apartments and hotel/motel rental units)

Santa Clara Business Tax Overview

Employee Count Range	Number of Employee-Based Business Licenses	Number of Employees
1 - 49	5,700	36,000
50 - 99	170	12,000
101 - 499	180	39,000
500 - 10,000	50	50,000



Procurement Update

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Business Tax & Ballot Measure Consulting Services

- Released Statement of Qualifications procurement in September 2021
- Proposal evaluation underway; contract award(s) expected by November
- Services to be provided include:
 1. Comprehensive study on the current business tax structure and recommending alternative tax structures/methods in addition to exploring other tax measures
 2. Professional polling/public opinion research services
 3. Corporate and community outreach



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Business Tax Structures

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Structure Types

- **Employee Count** - assessed on employee head count
- **Parcel Tax** - assessed on square footage developed on a given property
- **Square Footage** - assessed on square footage occupied and used by a specific business
- **Gross Receipts** – assessed based on the gross receipts of a business
- **Payroll** - business tax based on an organization's total payroll



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Benchmarking

CITY	BUSINESS LICENSE TYPE	YEAR ADOPTED
Cupertino	Square Footage	1992
East Palo Alto	Gross Receipts	2016
Mountain View	Employee Count	2018
Redwood City	Employee Count	1990
San Francisco	Gross Receipts Payroll	2011
San Jose	Employee Count	2016
San Mateo	Gross Receipts	1976
Santa Clara	Employee Count	1992
Sunnyvale	Employee Count	1976



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Source: Matrix Consulting Business License Tax Program Comparative Assessment and Initial Revenue Projections for the City of Palo Alto, December 2019

* Santa Clara's tax structure was adopted in 1992, the source data incorrectly noted 2003

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Benchmarking

City	Annual Rate	FY 21/22 Budget
Cupertino	\$155 - \$306 plus per unit costs in limited cases	\$0.6 M
Gilroy	\$40 - \$2,000	\$0.6 M
Los Altos	\$75 - \$335 plus addtl. amt. per employee/unit; \$3,200 max.	\$0.5 M
Mountain View	\$75 - \$584K + \$150/employee (tiered by no. employees)	\$6.0 M
San Jose	\$207 - \$166K (tiered by no. employees/units)	\$25.7 M
Santa Clara	\$15 - \$500 (tiered by no. employees/units)	\$0.9 M
Sunnyvale	\$41 - \$13K (tiered by no. employees/units)	\$1.9 M



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Ballot Measure Considerations

General Tax Measure

- Levied to be expended on any program, service, or capital need, at the discretion of the local government's governing body
- A **simple majority** vote (50 percent of voters plus one additional voter) is required for approval of a general tax
- Non-property related taxes which cities and counties are authorized to levy may be imposed as a general tax

Ballot Measure Considerations

Special Purpose Tax Measure

- Dedicated to a specific purpose, including a special tax for a specific purpose that is deposited into a city's general fund
- Requires a **2/3 supermajority vote**
- Taxes levied on property, excluding ad valorem but including parcel taxes, are considered special taxes

Recent Business License Tax Ballot Measures

Agency	Nov 2018 Ballot Measure	Pass/Fail	Agency	Nov 2020 Ballot Measure	Pass/Fail
Cudahy	Casinos	Pass	San Jose	Cardroom Tax	Pass
Daly City	Business Tax	Pass	Richmond	Business Tax	Pass
Mountain View	Business Tax	Pass	San Francisco	Business Tax – various changes	Pass
Sausalito	Business Tax	Pass	San Francisco	Business Tax – employee pay	Pass
Grover Beach	Business Tax	Pass	Berkeley	Transportation Network Companies	Pass
San Francisco	Citizen Initiative – Business Tax	Pass	Long Beach	Oil Production Tax	Pass
County of San Benito	Business Tax	Pass	Lynwood	For-Profit Hospitals	Fail



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City Council Feedback

Key Priorities for Consideration

- Ease of Administration?
- Ease of Implementation?
- Progressive v. regressive structure?
- Stability of tax structure?
- Revenue generation?
- General Tax v. Special Tax?



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Other Potential Ballot Measures

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Reminder - Where Do We Need to Go

- Continued Fiscal Discipline
- Budget Balancing Actions
- Revenue Growth
- Infrastructure Needs
- Long-Term Fiscal Stability



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Where Do We Need to Go: Budget Balancing Other Potential Ballot Measures

- Utility User Tax / SVP Charter Language Clarification
- Documentary Transfer Tax
- General Obligation Bond or Parcel Tax

Note: City Council will need to prioritize ballot measures as there are many being considered.



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Where Do We Need to Go: Budget Balancing **Utility Users Tax**

- Common tax imposed by a City on the consumption of utility services
- The rate and use is determined by the City
- Tax is levied on the utility customer
- The City does not currently have a UUT
- Voter approval required
- UUT rates vary in the area
 - The most common rate is 5%
 - The rates in Santa Clara County range from 2% to 5%
- Potential estimated revenue of \$4 M - \$6 M (Water, Gas, Telephone)



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Where Do We Need to Go: Budget Balancing

Documentary Transfer Tax

- Documentary Transfer Tax is imposed on the transfer of the title of real property from one person (or entity) to another within the jurisdiction
- Based on the property's sale price
- Current County Transfer Tax is \$1.10 for each \$1,000 sale amount
 - City receives \$0.55 and the County receives \$0.55
 - Tax increase would go to the City but the entire \$1.10 would stay with the County
 - Current revenue of approximately \$1.4 million
- Increase of \$3.30 (for a total tax of \$4.40 for each \$1,000) would generate \$7 million annually; for a \$1.5 million property sale, the tax would increase from \$1,650 to \$6,600

Where Do We Need to Go: Budget Balancing

Documentary Transfer Tax

Documentary Transfer Tax Comparison for Santa Clara County Charter Cities*

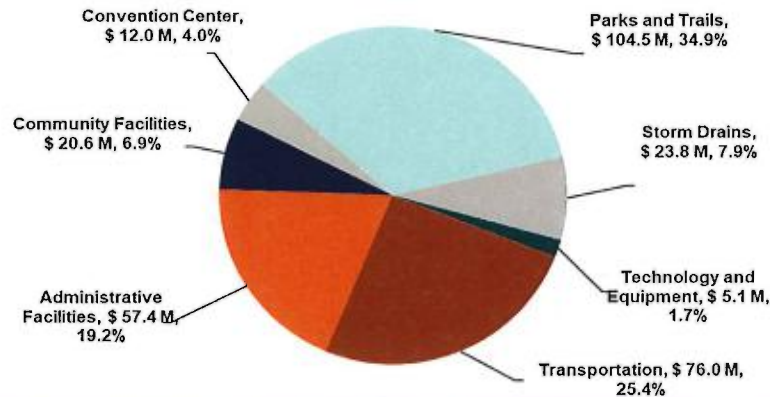
City	City Rate	FY 2021/22 Budget
Gilroy	\$0.55 per \$1,000 (base set for all counties)	\$0.5 M
Mountain View	\$3.30 per \$1,000	\$4.0 M
Palo Alto	\$3.30 per \$1,000	\$7.1 M
San Jose – Conveyance Tax	\$3.30 per \$1,000	\$38.0 M
San Jose – Transfer Tax	\$7.50 - \$15.00 per \$1,000 (tiered - over \$2 M)	\$40.0 M
Santa Clara	\$0.55 per \$1,000 (base set for all counties)	\$1.5 M
Sunnyvale	\$0.55 per \$1,000 (base set for all counties)	\$1.8 M

* Only Charter Cities may impose a transfer tax above the amount set by State

Where Do We Need to Go: Infrastructure Needs

Significant Unfunded Infrastructure Needs

Five-Year CIP Unfunded Needs = \$299.4 M



Where Do We Need to Go: Infrastructure Needs

Close to \$1 billion of identified capital needs beyond CIP:

- Parks Assessment (December 2017-Kitchell Report) identified \$100 M of parks grounds and building needs (\$156 M w/ escalation)
- 2015 Storm Drain Master Plan identified \$343 M in projects (2018 dollars), including almost \$68 M in high priority projects
- Transportation infrastructure (e.g., traffic signal infrastructure replacement (\$50 M), uncontrolled crosswalks (\$50 M), Bicycle Plan (\$40 M), Creek Trail Master Plan (\$50 M), pavement (\$9 M annually beyond CIP)
- Public Buildings (New City Hall (\$236 M – \$300 M), existing City Hall (\$39 M); fire stations, historic buildings, corporation yard, ADA plan)
- Expand capacity (e.g., library)

Where Do We Need to Go: Infrastructure Needs

General Obligation (GO) Bond

Key Features:

- Used for long-term capital project financing
- Requires two-thirds supermajority vote
- One-time revenue, up front
- Secured by levying ad valorem property taxes in addition to the 1% general ad valorem property tax



Swim Center Boiler



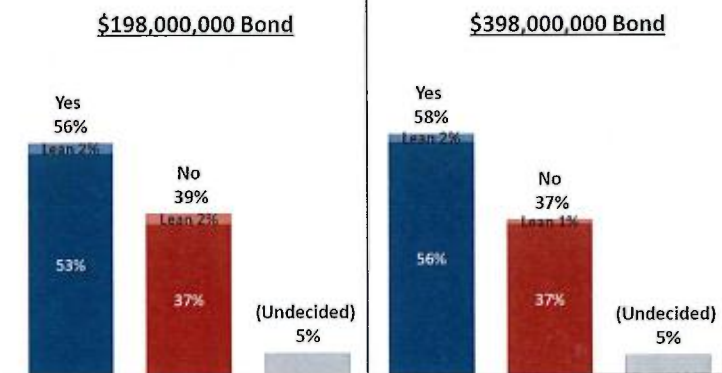
Fire Training Tower

Initial Interest: Bond Measure

EMC
research

Initial interest in a bond measure is similar regardless of the proposed amount. Neither version reaches the two-thirds threshold required to pass.

To maintain healthy, safe neighborhoods and improve quality of life in Santa Clara, shall a measure to repair aging fire stations, fix streets/potholes, improve flood protection, enhance bicycle/pedestrian safety, and upgrade park, recreation and library facilities by issuing [A:] \$198,000,000 / [B]: \$398,000,000 in bonds at legal rates, at an estimated [A:] 28 cents / [B]: 56 cents per \$100 of assessed value, raising approximately [A:] \$140,490,000/ [B]: \$282,390,000 annually while bonds are outstanding, with oversight/audits, and no funds for salaries/benefits/pensions, be adopted?



Where Do We Need to Go: Infrastructure Needs

General Obligation (GO) Bond

Considerations:

- Recent polling has not supported broad-based GO bond measure
- Targeted measure (e.g., public safety and/or storm infrastructure focused) may be more supported by residents
- Additional education, polling, and outreach would be necessary
- Consultant to determine the likelihood of success of one or more ballot measures/combination of measures

Council Feedback

Other Ballot Measures

- Determine which other measures Council would like to pursue and prioritization of measures



Timeline

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Estimated Timeline for Business License Tax Ballot Measure

Tentative Actions	Tentative Date
Receive Initial Findings on Business License Tax study from Consultant	January/February 2022
Polling/outreach to determine community interest/priorities	March - June 2022
Evaluate options and make final determination	May - June 2022
Submit final measure for Nov. 2022 ballot	July 2022
Conduct community/business outreach on ballot measures	July 2022 - November 2022
Election Date	November 2022



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Recommendation

1. Provide feedback on key priorities for the development of recommendations on possible alternative tax structures for future Council consideration.
2. Review and direct staff to explore other potential revenue measures to be placed on the November 2022 ballot.

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