



## ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL  
10300 TORRE AVENUE • CUPERTINO, CA 95014-3255  
TELEPHONE: (408) 777-3220 • FAX: (408) 777-3109  
CUPERTINO.GOV

### CITY COUNCIL STAFF REPORT

Date: February 19, 2026

#### Subject

Consider Potential November 2026 Revenue Ballot Measure

#### Recommended Action

Receive information regarding potential revenue ballot measure options and provide direction on pursuing placement of a measure on the November 2026 ballot.

#### Background

In December 2023 and February 2024, Council considered potential revenue-generating ballot measures but ultimately directed staff to forego placement of a 2024 measure due to timing and competing priorities.

Since that time, new fiscal pressures have emerged that warrant revisiting this discussion. Most notably, the County has proposed a 36% increase to the City's Sheriff's contract beginning in FY 2026-27. If implemented as proposed, this increase would materially impact the City's long-term financial outlook and is projected to create an ongoing structural deficit absent offsetting revenue or expenditure adjustments. While negotiations are ongoing and final figures are not yet confirmed, the magnitude of the proposed increase has prompted staff to reexamine potential revenue options to ensure the City remains fiscally sustainable over the long term.

On January 13, 2026, Council revisited tax revenue ballot measure options considering updated fiscal forecasts and emerging structural cost pressures. Council emphasized the need to:

- Demonstrate fiscal necessity;
- Prioritize renewal of existing revenue sources (particularly the Utility Users Tax);
- Explore revenue options that distribute impact beyond residents; and
- Carefully evaluate feasibility and implementation complexity.

#### Reasons for Recommendation and Available Options

The City competitively selected HdL Companies ("HdL") through a Request for Quote process to assist with an analysis of potential revenue tax measures. HdL produced the Revenue Enhancement Opportunities Report (February 2026), as Attachment A, that evaluates five potential revenue tools:

- Vacancy Tax

- Transactions and Use Tax (TUT)
- Parcel Tax
- Business License Tax
- Business License Tax for Ride-Share Services

The report does not recommend a preferred option but outlines voter thresholds, implementation requirements, administrative considerations, and revenue estimates.

### *Summary of Revenue Options*

#### **1. Transactions and Use Tax (TUT)**

A TUT is an additional local sales tax, measured as a percentage of taxable retail sales occurring within the City. It is added on top of the statewide base sales tax rate and collected by the California Department of Tax and Fee Administration (CDTFA). TUT revenue is typically unrestricted unless approved as a special tax for a designated purpose. Cupertino currently has capacity for up to a 0.25% increase under the state cap.

- Estimated revenue: approximately \$2.7 million annually per 0.125% (\$5.4 million total)
- Voter threshold: simple majority (general tax)
- Implementation: Effective April 1 following a November election
- Approximately 28.8% of TUT revenue would be paid by non-residents

**Pros:** Broad base, partial non-resident contribution, relatively high feasibility.

**Cons:** Regressive in nature; subject to economic cycles.

#### **2. Business License Tax**

The City's Business License Tax is already codified in the Municipal Code. The current tax structure is based on rates originally established in 1992 and adjusted annually by the Consumer Price Index (CPI).

- Estimated revenue:
  - o \$2 million to \$3.1 million annually under models similar to Mountain View or East Palo Alto;
  - o Up to \$10.2 million annually under a more aggressive employment-based structure
- Voter threshold: simple majority (general tax).
- Implementation: Determined based on City Ordinance adoption after measure approval.

**Pros:** Significant revenue potential; flexible structuring.

**Cons:** Administrative complexity; potential business opposition.

#### **Rideshare Tax:**

A ride-share tax is specific to ride-share services that operate within the City. Council previously expressed interest in exploring a ride-share-specific tax component, which would need to be structured as part of a business license tax. While passage would only require a simple majority,

estimating potential revenue would require additional research regarding the number of ride-share operations and trips within the City.

**Pros:** Distributed to all users; reduce traffic congestion if fees discourage use.

**Cons:** Administrative complexity; regressive in nature.

### 3. Vacancy Tax

A Vacancy Tax is imposed on certain residential or commercial properties that remain unoccupied for a defined period of time. The tax is typically intended to encourage productive use of property and may be structured as either a flat annual fee or a percentage of assessed value. Revenue may be restricted or unrestricted depending on how the measure is drafted. Estimated revenue range:

- Estimated revenue: \$846,000 to \$1.4 million annually, depending on structure
- Voter threshold: varies depending on structure (excise vs. parcel tax).
- Implementation: Varies depending on the type and scope of tax.

**Pros:** Incentivizes property owners to lease or sell unused properties; revenue in areas with blight.

**Cons:** Negligible impact on vacancies; increase short term rental market; difficult to enforce.

There was no consensus at the January 13 meeting to pursue this option.

### 4. Parcel Tax

A Parcel Tax is a flat or formula-based tax imposed on property parcels within the City, independent of assessed value. Unlike property taxes, which are based on assessed value, a parcel tax is typically a fixed amount per parcel or based on parcel characteristics (e.g., square footage, land use). Parcel taxes require two-thirds voter approval and are usually designated for specific purposes. Revenue potential varies widely depending on structure:

- Estimated revenue: From several hundred thousand dollars to over \$5 million annually depending on rate and design.
- Voter threshold: two-thirds.
- Implementation: Varies depending on the structure of the tax.

**Pros:** Stable revenue; less regressive as a fixed amount.

**Cons:** Requires specific purpose; borne entirely by property owners.

There was no consensus to pursue this option at this time.

### 5. Utility Users Tax (UUT)

A Utility Users Tax (UUT) is a locally imposed tax on utility services such as electricity, gas, telecommunications, cable, and wireless services. The tax is typically calculated as a percentage of a customer's utility bill and is collected by service providers and remitted to the City. UUT revenue is generally unrestricted and may be used for general governmental purposes. The City

currently has a UUT in place, which is set to sunset in FY 2030–31. Renewal would require voter approval but would not generate new near-term revenue unless modified.

Council expressed consensus on renewal of the UUT but likely not in 2026.

### *Feasibility and Ranking Considerations*

Based on HdL’s evaluation matrix and Council’s January 13 direction, the relative characteristics of each option can be summarized:

| Option               | Revenue Potential | Administrative Complexity | Voter Threshold    | Non-Resident Impact |
|----------------------|-------------------|---------------------------|--------------------|---------------------|
| TUT                  | Moderate–High     | Low–Moderate              | 50%+1<br>(general) | ~28.8%              |
| Business License Tax | Moderate–High     | Moderate                  | 50%+1<br>(general) | Indirect            |
| Vacancy Tax          | Low–Moderate      | High                      | 50%+1 or 2/3       | Limited             |
| Parcel Tax           | Variable          | Moderate                  | 2/3                | None                |

Staff requests direction regarding which options, if any, should move forward to polling and public outreach.

### *Fiscal Context*

As directed on January 13, staff is updating second quarter budget forecasts and incorporating recent fiscal changes, including updated investment return projections, among others. These updates will be provided in a supplemental report.

### Sustainability Impact

No sustainability impact.

### Fiscal Impact

If Council directs staff to proceed with development of a ballot measure, the following approximate costs are anticipated:

- Consultant services for polling, public outreach, legal review, ballot language development, and strategic advisory services: approximately \$150,000 to \$200,000 based on initial discussions with multiple firms; and
- Estimated County of Santa Clara costs to place the measure on the November 2026 ballot: approximately \$150,000, based on historical costs.

These estimates are preliminary and would be refined prior to returning to Council with a consultant agreement or appropriation request.

### City Work Program (CWP) Item/Description

None

California Environmental Quality Act

No California Environmental Quality Act impact.

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Prepared by: Jonathan Orozco, Acting Director of Administrative Services and City Treasurer

Reviewed by: Floy Andrews, Interim City Attorney

Approved for Submission by: Tina Kapoor, City Manager

Attachments:

A – Revenue Enhancement Opportunities Report (02.2026)