



ADMINISTRATIVE SERVICES DEPARTMENT

CITY HALL

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CITY COUNCIL STAFF REPORT

Date: February 3, 2026

Subject

Transition of Business License Administration to HdL Companies and consideration of a Business License Amnesty Program

Recommended Action

Receive a report on the transition of phased business license administration to HdL Companies and provide direction on whether to adopt a business license amnesty program. If Council elects to proceed with amnesty, select one of the three options presented below. The details, benefits, and tradeoffs of each option are discussed below.

1. Adopt a 30-day citywide business license amnesty period prior to initiation of HdL's compliance and discovery efforts;
2. Provide ongoing amnesty upon discovery for newly identified unlicensed businesses; or
3. Adopt a phased 60-day business license amnesty program (staff recommendation) consisting of 100% penalty forgiveness during the first 30 days and 50% forgiveness during the subsequent 30 days, followed by full enforcement.

Reasons for Recommendation:

An amnesty program can help bring unlicensed businesses into the system. This improves the accuracy of the City's business database, supports better revenue forecasting, and improves communication with the business community. When appropriately licensed, businesses may participate in and take advantage of official City promotions and programs, providing valuable visibility and resources. Examples include the City's Shop Local initiatives and the online Cupertino Business Resource Hub.

If adopted, the program will also produce one-time revenue for the City by payment of previously unpaid license fees, as well as ongoing annual revenue as newly compliant businesses remain licensed in future years. This also helps reinforce the City's commitment to a friendly business environment.

It is estimated that there are approximately 800 unlicensed businesses in Cupertino. If brought into compliance, these businesses would generate an estimated \$580,000 in annual, ongoing

revenue. This estimate reflects analysis of local business activity and comparative business license databases.

Background

During fiscal year 2024-25, staff identified an opportunity to modernize and enhance business license administration by transitioning this function to HdL Companies. The shift became operationally feasible following vacancies in the Administrative Services Department and allowed the City to improve customer service, enhance compliance tools, and increase operational efficiency.

As part of this transition, staff collaborated with HdL to evaluate and recommend amnesty program options to bring unlicensed businesses into compliance. These programs are commonly offered by jurisdictions that previously administered business license programs in-house without a dedicated compliance or discovery function. This is not uncommon as many agencies lack the specialized tools and staffing capacity needed for effective enforcement, and rely on third-party vendors like HdL to leverage economies of scale and proven systems for unlicensed business discovery and license enforcement. In addition to operational and compliance benefits, this model also results in net cost savings for the City, as the revenue generated through HdL's discovery and compliance functions exceeds the City's cost to contract for business license administration.

Before HdL initiates formal discovery and compliance activities, staff recommends that Council consider adopting one of the three options for an amnesty program to promote voluntary compliance and signal a transition to a more structured licensing framework. As mentioned above, the amnesty program has clear benefits to the City and helps create goodwill with the business community. Alternatively, Council may choose to forgo an amnesty period and allow HdL's compliance and discovery efforts to begin immediately.

Amnesty Eligibility

Staff recommends that the amnesty program apply to all businesses currently out of compliance, including:

- Businesses that have never applied for a business license
- Businesses that previously held a license but failed to renew in prior years

This inclusive approach ensures fairness and maximizes the opportunity for the City to establish a complete and accurate business registry.

What Constitutes a Business?

Under current Cupertino Municipal Code (CMC 5.04.020), a business is broadly defined "as every kind of lawful business, profession or trade in the City". This includes storefronts, service providers, professional offices, and home-based businesses. Technically, an individual working remotely from home, even for a company located elsewhere, would be considered to be conducting business within the City and may be subject to licensing. However, this approach is impractical and inconsistent with common practice. Across the industry, remote employees are treated as part of the business located at the employer's physical site, not as standalone operations requiring a separate license.

The City plans to clarify this interpretation as part of an upcoming municipal code clean-up, and expressly exclude remote employees from business license requirements unless otherwise operating as an independent business. The City is also planning on developing FAQs for the business license and the amnesty program, if adopted, which will be promoted broadly to the business community and residents.

Nonprofit Organizations

Under the current Code (CMC 5.04.080), the business license requirement is directly tied to the imposition of the business license tax. As a result, nonprofit organizations, which are tax-exempt (CMC 5.04.110), have not been required to submit a business license application.

This limits the City's ability to maintain an accurate registry of active nonprofits and engage with them effectively.

To improve administrative oversight, staff intends to recommend a future code amendment requiring all nonprofit organizations to submit a business license application, even if no tax is due. This change will enhance transparency, support outreach, and align Cupertino's policies with those of peer cities.

Business License Amnesty Programs

HdL presented three possible business license amnesty models to the City:

1. *Citywide 30-Day Amnesty Window*

This model offers a short, 30-day citywide window during which any unlicensed business can voluntarily register without penalties. After this period, HdL would begin formal discovery and apply full penalties to any unlicensed businesses identified.

Benefits: Sends a clear message that compliance is expected while offering a brief goodwill period; incentivizes voluntary registration; minimizes extended revenue loss.

Tradeoffs: Limited outreach window; lower total capture rate than longer programs; businesses unaware of the opportunity may miss the deadline.

2. *Ongoing Amnesty for Discovered Businesses*

This model provides amnesty on a rolling basis to any unlicensed business that is newly identified by HdL through its discovery and compliance program. Penalty forgiveness would be extended to each newly discovered business at the point of their identification, not on a fixed timeline.

Benefits: Creates a consistent, low-friction process for bringing businesses into compliance; gives newly discovered businesses an opportunity to register before being penalized.

Tradeoffs: Less public visibility of the program; does not incentivize voluntary registration ahead of discovery; may delay the City's ability to realize full revenue potential.

3. *Phased 60-Day Amnesty (Recommended)*

This approach offers citywide penalty forgiveness to all previously unlicensed businesses: 100% forgiveness in the first 30 days and 50% forgiveness in the following 30 days. After the 60-day period, HdL would begin full discovery enforcement and resume standard penalties.

Benefits: Encourages early participation while preserving a sense of urgency; offers a fair and time-bound transition period for businesses to comply voluntarily; allows clear communication and structured outreach.

Tradeoffs: Temporarily reduces penalty revenue that could otherwise be collected from non-compliant businesses; requires active monitoring and outreach to maximize effectiveness; may generate concerns of fairness if not paired with consistent enforcement afterward.

All models would comply with state law and current City practice, with recovery of penalties limited to the most recent three years of unpaid business license taxes.

Public Outreach and Education

If the Council adopts an amnesty program, staff will initiate a coordinated outreach effort that includes:

- Website and business portal updates
- Social media and newsletter messaging
- Engagement with local businesses, property owners, and property managers
- Assistance from the Economic Development Committee to broaden business outreach
- Educational materials on the renewal process and available City resources

The goal is to ensure businesses understand the amnesty opportunity and the importance of timely compliance going forward.

Sustainability Impact

No sustainability impact.

Fiscal Impact

The recommended phased amnesty program is projected to yield a net positive fiscal impact. HdL's compliance tools are expected to generate substantial new revenues, estimated at \$580,000 annually, and improve ongoing compliance. HdL has estimated that their costs for administering the program will range between \$10,000 and \$15,000, depending on the number of businesses ultimately brought into compliance.

City Work Program (CWP) Item/Description

None.

Council Goal:

Fiscal Strategy, Quality of Life, Public Engagement and Transparency

California Environmental Quality Act

No California Environmental Quality Act impact.

Prepared by: Jonathan Orozco, Acting Director of Administrative Services

Reviewed by: Floy Andrews, Interim City Attorney

Approved for Submission by: Tina Kapoor, City Manager

Attachments: