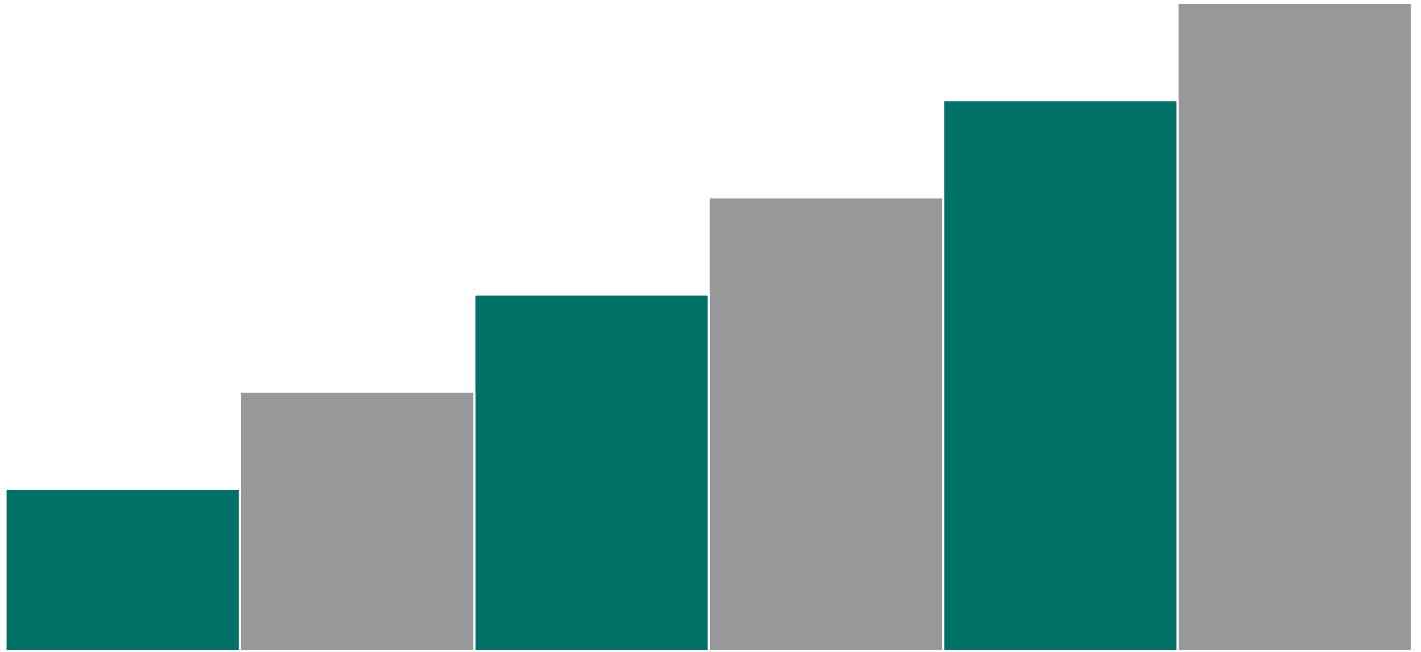




Development Driven by Data

City of Cupertino

Revenue Enhancement Opportunities Report

CITY OF CUPERTINO REVENUE ENHANCEMENT OPPORTUNITIES REPORT

BACKGROUND

The City of Cupertino (“City”) is exploring potential revenue enhancement opportunities to raise additional tax revenue. The City retained the services of HdL to prepare a report evaluating various revenue enhancement opportunities.

Hinderliter de Llamas Associates (HdL) is a 42-year-old consulting firm with corporate offices in Brea, California, along with offices in Pleasanton and Fresno, as well as offices in Texas, Colorado, and Georgia. HdL is a highly respected consulting firm working in sales tax, property tax, tax & fee administration, revenue analysis, economic development, and cannabis management. HdL ECONSolutions was formed by HdL in 2014 to provide a variety of economic development products, services, and special projects in further serving local governments. HdL ECONSolutions has done work for more than 235 local governments and 25 developers in California and presently is working for 35 California cities and several private sector developers on a variety of economic development related services. HdL has prepared similar Revenue Enhancement Opportunity Studies for the cities of Goleta, Rancho Cucamonga, Carpinteria, and Jurupa Valley, as well as Sacramento County.

SUMMARY

The report identifies five potential revenue enhancement opportunities:

- Vacancy Tax
- Transactions and Use Tax
- Parcel Tax
- Business License Tax
- Business License Tax for Ride Share Services

This report evaluates each of the revenue opportunities by describing:

- The nature of the tax.
- The process to implement the tax and feasibility of implementation.
- The pros and cons of each, including potential impacts on the residents and businesses within the community.
- The potential revenue estimates.

The summary table at the end of this report provides an overview of this evaluation. This report also includes an analysis of the approximate sales tax revenue generated by residents versus non-residents. The report does not make a recommendation or state a preference for one revenue source over another. However, it clearly outlines the above-described evaluation of each possible opportunity.

This report uses revenue data from the most recent fiscal year for which audited data was made available (FY2024) unless noted. Additionally, all revenue estimates are based on this actual data and do not consider potential or anticipated development. A more detailed revenue estimate should be prepared to support any ballot measure.

GENERAL SUMMARY OF VOTER APPROVAL REQUIREMENTS FOR REVENUE OPTIONS

Each option requires local voter approval by the residents of Cupertino. The required threshold for voter approval is described for each option in the table below.

Revenue Option	General Use of Funds: Voter Approval Threshold	Special Use of Funds: Voter Approval Threshold
Vacancy Tax	Simple majority (50 + 1)	Two-thirds majority
Transactions and Use Tax	Simple majority (50 + 1)	Two-thirds majority
Parcel Tax	-	Two-thirds majority
Business License Tax	Simple majority (50 + 1)	Two-thirds majority
Business License Tax for Ride Share Services	Simple majority (50 + 1)	Two-thirds majority

City measures for voter approval require submission to the county registrar of voters before being placed on the ballot. In 2026, proposed ballot measures must follow the timeline below for submission:

1. August 7 (88 days) - City Council must approve and submit a resolution to the County Registrar of Voters
2. August 11 (84 days) – Primary arguments for a measure must be filed with the City Clerk's Office
3. August 12 (83 days) – Last day to amend or withdraw a ballot measure
4. August 18 (77 days) – Submission of rebuttal arguments and impartial analyses
5. October 5 (29 days) – Registrar of Voters begins mailing vote-by-mail packets
6. November 3 – Election day

All filed arguments and analyses are subject to a 10-day public review period, during which a writ of mandate may be sought to amend or delete the material.

VACANCY TAX

Description

A vacancy tax is a form of tax on unoccupied properties within the physical boundaries of a city. The tax can be on any type of property and can include properties for lease and sale. The structure of the tax can vary according to the discretion of the city and can either be structured as an excise or parcel tax.

Currently, the cities of Berkeley, Oakland, and San Francisco charge vacancy taxes on unused properties. No cities in California were found to charge taxes specifically on unused short-term rentals. Notably, a voter-approved tax in San Francisco on vacant multi-family units has been suspended until a final court decision can be reached.

Among active vacancy taxes, the City of San Francisco imposes a commercial vacancy tax on retail space that is unused for more than 182 days. The tax rate is \$250 per linear foot of street-facing building frontage, and increases based on the term of vacancy. The City of Oakland imposes a vacant property tax on all properties in use for less than 50 days in a year. The tax rate is \$6,000 per parcel of single-family home, nonresidential, or undeveloped property, and \$3,000 per vacant multi-family unit. The City of Berkeley similarly charges a flat tax on vacant residential units that increases based on the term of vacancy. Each program provides a range of exemptions, such as for financial hardship and active construction.

There would be a cost to administer the collection and audit of any vacancy tax. That cost could vary depending on whether the city chooses to administer the collection in house or contracts with a third party. Based on existing vacancy taxes, this cost is substantial.

Implementation Process

A vacancy tax requires a ballot measure approved by the residents of the local jurisdiction. The implementation process varies depending on the type and scope of the tax.

An excise tax on vacant properties requires City Council approval to place a measure on the ballot with a two-third vote for general purpose funding (4 out of 5 for the City of Cupertino) or a simple majority for special purpose funding. Voter approval of a majority (50% plus 1) is required for general purpose funding and two-thirds for special purpose funding.

A parcel tax on vacant properties requires City Council approval with a simple majority to place a measure on the ballot. Voter approval requires a two-third vote regardless of the use of the funds. If the City were to pursue consideration of a vacant parcel tax, a separate analysis on defining the purpose and the taxing structure and providing more refined revenue estimates for each option would be required.

Pros and Cons

Pros

Incentivizes property owners to lease or sell vacant or unused properties.

Can provide substantial revenue in areas with significant blight.

Cons

Existing vacancy taxes are shown to have a negligible impact on vacancies.

Vacancy taxes could increase the number of properties on the short-term rental market.

Enforcement is difficult and requires substantial resources to verify exemptions.

Potential Revenue Estimate

Estimating potential revenue depends on the number of unused properties, their length of vacancy, the tax rate, and the structure of the tax. This varies from city to city. A city can impose differing tax rates based upon the classification of property. However, more variations in tax rates make the administration and collection of the tax more complicated and thus more costly.

Extrapolation Rate Approach

One way to estimate potential revenue is to look at one or more peer cities in the region that currently impose the tax and extrapolate their revenue to Cupertino on a per capita basis. HdL estimated revenue from a vacant property tax in Cupertino by extrapolating vacancy tax revenue from the City of Oakland on a per capita basis. Although there are likely significant differences between the number of vacant properties in Oakland and Cupertino, this method presents one approach for estimating potential revenue.

Analysis of Vacancy Tax Revenue Based on Average Per Capita	
Total Population of Selected Peer Cities	440,646
Total Vacancy Tax Revenue of Surveyed Cities	\$6,357,011
Average Tax Revenue Per Capita	\$14.43
City of Cupertino Population	58,710
Estimated Revenue Based on Average Per Capita	\$846,984

Modeled Approach

Another way to estimate potential revenue is to look at estimates of vacant properties in Cupertino and calculate their tax following the model of one or more peer cities. HdL estimated tax revenue from vacant properties in the City of Cupertino using industry data on business properties and U.S. government estimates of vacant residential properties in the City of Cupertino. The tax was estimated on a per property basis following the Oakland model. Vacant property is defined as having been unused for more than 6 months. There may be significant differences between these estimates and the results of any in-depth study due to differences in definitions, measurement, and exemptions.

Analysis of Estimated Revenue from Vacant Properties (More than 6 Months)	
Description	Amount
Estimated Number of Vacant Business Properties	9
Estimated Number of Vacant Single-Family Homes	148
Estimated Number of Vacant Units in Multi-Family Homes	154
Tax Rate Per Vacant Single-Family Home and Business Property	\$6,000
Tax Rate Per Vacant Unit in Multi-Family Home	\$3,000
Potential Revenue	\$1,404,000

Data on vacant properties from Costar and U.S. Census American Community Survey

TRANSACTIONS AND USE TAX

Description

A Transactions and Use Tax (TUT) is an additional sales tax levy on top of the Bradley-Burns Uniform Local Sales and Use Tax imposed by individual cities. What is referred to as the Bradley-Burns local portion of the sales and use tax is the 1% allocated to the jurisdiction where the sale is negotiated or the order is taken. Cities, counties, and special districts have the ability to add on to the Bradley-Burns tax for their specific uses.

Existing law authorizes cities and counties, subject to limitations and approval requirements, to levy a transactions and use district tax for general or specific purposes, in accordance with the Transactions and Use Tax Law. This includes a requirement that the combined rate of all taxes that may be imposed in accordance with that law in the jurisdiction not exceed 2% for a total sales and use tax rate of 9.25%. The TUT is destination-based, meaning it is allocated to the jurisdiction where the goods are delivered or placed into use.

A local government does not have the ability to make exemptions as to what goods and services are exempt from the TUT. The TUT would be applicable to all goods and services subject to the statewide sales and use tax. Items that are exempt from TUT include certain food products for human consumption (many groceries), sales to the U.S. Government, prescription medicine and certain medical devices, and items paid for with food stamps.

Starting April 1, 2026, the combined Bradley-Burns and TUT tax rate in the City of Cupertino will be 9.75%, which is the baseline rate within Santa Clara County. This includes the state base rate of 7.25% along with a county-wide Transactions and Use Tax add-on of 2.5%. Of this county-wide add-on, 0.75% is exempt from the cap. The state legislature has authorized an additional 0.5% county-wide add-on exempt from the cap for voter approval in 2026.¹ Local governments can impose a TUT in increments of 0.125%, up to the state cap amount. Therefore, there is capacity to impose a TUT of up to 0.25%, and still be under the 2% cap.

Currently, there are 407 cities in the state that have approved a TUT, and in the 2025 election, voters in nine California cities considered adding or extending add-on transactions and use taxes, with eight passing. In Santa Clara County, there are currently four cities which impose a TUT add on to the County rate of 9.75%. Cities with a TUT in Santa Clara County include:

- Campbell – 1%
- Los Gatos – 0.125%
- Milpitas – 0.25%
- San Jose – 0.25%

¹ As authorized by [2025-2026 SB 63](#), [2023-2024 SB 335](#), and [2017-2018 SB 797](#) (California Legislative Information).

There would be an administrative expense paid to the State Board of Equalization associated with the monitoring of the collection and audit of the TUT. An estimate of this cost is included in the potential revenue estimates provided by HdL. There would also likely be additional expenses associated with county administration of the tax.

Implementation Process

Enactment of a TUT requires a ballot measure approved by the residents of the city. Placing a measure on the ballot requires supermajority City Council approval with a two-thirds vote (4 out of 5 for the City of Cupertino). Once on the ballot, the measure must have a two-third voter approval for special purpose funding or a simple majority (50% plus 1) for general purpose funding to pass.

A TUT would be implemented no sooner than 110 days after the election date. For a November ballot measure, it will be implemented on April 1 of the following year, unless a later date is stated in the measure. For financial purposes, an April 1 start date means cash flow will start in June. With a normal 60-day accrual period, a city can expect one quarter worth of revenue for that fiscal year, with the first full fiscal year impact not felt until the following year. A sample implementation timeline is provided below:

- November 2026 - successful ballot measure
- April 2027 – effective date
- June 2027 – first cash flow
- FY2027 – one quarter fiscal impact
- FY2028 - first full year fiscal impact

Process to Increase the Transactions and Use Tax Beyond the 2% Cap Limit

The existing Revenue and Taxation Code authorizes cities and counties, subject to certain limitations and approval requirements, to levy a transactions and use tax for general or specific purposes, in accordance with the procedures and requirements set forth in the Transactions and Use Tax Law to exceed the 2% limit. The authorization to exceed the 2% limit requires state legislative action, in the form of legislation to allow for a specific jurisdiction to exceed the limit. The California State Legislature must approve the bill to allow the city to make this exemption. The city will still need to follow the local voter approval process to approve the measure.

Pros and Cons of TUT and Increases

Pros

Sales taxes are borne by both residents and non-residents purchasing goods and services from businesses in the taxing jurisdiction. HdL estimates that 28.8% of a Cupertino TUT would be paid by non-residents - individuals and businesses residing and located outside of the City.

Cons

Sales taxes are regressive by nature. Taxes on general goods and services consume a greater proportion of a lower/moderate income family's income.

Potential Revenue Estimate

In July 2023, HdL prepared a Transaction District Add-on Sales Tax Estimate Report for the City of Cupertino. Based on the City's economic profile, revenue from a proposed 0.25% transactions and use tax is expected to be less than the revenue generated by the existing Bradley-Burns sales and use tax after adjusting for differences in the tax rate. While HdL estimates there would be an increase in revenue from residents' purchase of automobiles in other jurisdictions and online shopping orders delivered within the City, this is outweighed by the allocation of business and industry goods to the location of delivery or first use, and not where the sales are negotiated or from where they originate.

After adjusting for differences in tax rates, a voter approved 0.25% TUT in Cupertino is estimated to generate approximately 62% of the existing Bradley-Burns local tax, or \$5.4 million per year using FY2023 as a baseline. If the City were to pursue a higher tax rate through state legislation, the increased tax amount can be calculated by the estimates of the additional 0.125% increments. In rounded numbers, an additional TUT could generate an additional \$2.7 million per eighth of a cent.

PARCEL TAX

Description

A parcel tax is a tax on a parcel of property within a city. The tax must be imposed for a specific purpose. The revenue collected may only be used for that specific purpose.² For example, library services, public safety, roads, or infrastructure improvements are common purposes. The owner of the individual property pays the tax. The amount of the tax is set by the city and can vary depending on the type of use of the property. For example, single-family residences, multi-family properties, and commercial, industrial, or vacant properties can have different rates. Recent rulings have also allowed for parcel taxes based on the square footage of developed land or property improvements, so long as the tax is not based on the assessed value of the property.³

The amount of tax can also be the same rate for all parcels regardless of land use. The city can also exempt certain classifications of properties. All of the tax rate decisions are at the discretion of the city. The tax rate should also be roughly proportional to the use of the services, so a tax rate study is required. A CPI increase may be built into the tax if it is supported by the tax rate study.

Parcel Taxes are most commonly imposed by school districts and special districts. The tax process is most utilized by cities for specialized services, such as libraries or public

² Parcel taxes are defined as special taxes under the California Constitution ([Article XIII A Section 4](#)) and California Government Code ([Section 64610](#)). Special taxes must include a specific purpose in their ballot measure under the California Government Code ([Section 50075](#)).

³ Based on rulings by the 1st District Court of Appeal in San Francisco and 2nd District Court of Appeal in Los Angeles ([2023](#)).

safety services. In Santa Clara County, the City of San Jose approved a CPI-adjusted parcel tax of \$29.84 per single family home in 2014 to fund library operations.

Parcel Taxes are not to be confused with Property Assessments, which are taxes assessed on specific properties for specific services provided to those properties, such as landscape maintenance and street lighting. These are referred to as Special Districts.

As with the other taxes described, there would likely be an administrative expense associated with the monitoring of the collection and audit of the tax.

Implementation Process

Implementation of a parcel tax requires a ballot measure approved by the residents of the city. Placing a measure on the ballot requires City Council approval with a simple majority. Voter approval requires a two-thirds vote regardless of the use of the funds.

There are many variations as to which parcels would be taxed and at what rates and the purpose of the tax. If the City were to pursue consideration of a parcel tax, a separate analysis on defining the purpose and the taxing structure and providing more refined revenue estimates for each option would be required.

Pros and Cons

Pros

Parcel taxes are a steady stream of income because they are based on a fixed fee. They are not subject to the volatility of land values.

Parcel taxes can be less regressive than sales or value-based taxes since they are a fixed amount.

Cons

Residents and landowners of the city pay parcel taxes. Non-residents or visitors of the city are not subject to this type of tax.

Though parcel taxes are less regressive than sales taxes, they still impact lower/moderate income individuals disproportionately.

Potential Revenue Estimate

The City can set the tax rate based on a fixed amount for various categories of land use or area of developed land. The table below identifies the parcel inventory for the City.

City of Cupertino Parcel Inventory			
Type	Percent	Number	Square Feet of Improvements
Commercial	0.7%	127	872,316
Industrial	0.4%	65	5,699,267
Residential, including multi-family	85.9%	14,936	34,324,164
Miscellaneous	13.0%	2,264	10,439,225
Total	100%	17,392	51,334,972

The City can set a different tax rate for various categories of land use. There are many combinations of rates and property types the City could choose to produce the most equitable tax structure. For example, the City could apply a tax of \$0.25 per square foot of improvements and a flat tax of \$100 per parcel on vacant properties. The tax amount per parcel category can vary significantly, but the following illustration provides a general scope of understanding of the tax and potential revenue it could generate.

Using the below tables as a model, the City could choose a residential rate of \$0.15 per square foot of improvements, generating approximately \$5.14 million in revenue, along with a \$150 per parcel rate for commercial and industrial properties, for a total of \$28,800 (\$19,050 for commercial plus \$9,750 for industrial) for a grand total of \$5.17 million per year.

Analysis of Parcel Tax Revenue Based on Number of Parcels (000s of \$)									
Property Type	Number of Parcels	\$25	\$50	\$75	\$100	\$125	\$150	\$175	\$200
Commercial	127	\$3.2	\$6.4	\$9.5	\$12.7	\$15.9	\$19	\$22.2	\$25.4
Industrial	65	\$1.6	\$3.3	\$4.9	\$6.5	\$8.1	\$10	\$11.4	\$13.0
Residential, including multi-family	14,936	\$373	\$747	\$1,120	\$1,494	\$1,867	\$2,240	\$2,614	\$2,987
Miscellaneous	2,264	\$57	\$113	\$170	\$226	\$283	\$340	\$396	\$453
Total	17,392	\$435	\$870	\$1,304	\$1,739	\$2,174	\$2,609	\$3,044	\$3,478

Analysis of Parcel Tax Revenue Based on Per Square Foot of Improvements (000s of \$)									
Property Type	Square Feet of Improvements	\$0.05	\$0.10	\$0.15	\$0.20	\$0.25	\$0.30	\$0.35	\$0.40
Commercial	872,316	\$44	\$87	\$131	\$174	\$218	\$262	\$305	\$349
Industrial	5,699,267	\$285	\$570	\$855	\$1,140	\$1,425	\$1,710	\$1,995	\$2,280
Residential, including multi-family	34,324,164	\$1,716	\$3,432	\$5,149	\$6,865	\$8,581	\$10,297	\$12,013	\$13,730
Miscellaneous	10,439,225	\$522	\$1,044	\$1,566	\$2,088	\$2,610	\$3,132	\$3,654	\$4,176
Total	51,334,972	\$2,567	\$5,133	\$7,700	\$10,267	\$12,834	\$15,400	\$17,967	\$20,534

BUSINESS LICENSE TAX

Description

Most cities impose a business license tax on businesses that operate within the physical boundaries of the city. There are various methodologies for calculating the tax. The presumption of a business license tax is to tax businesses for the services provided by the city to support its business community, i.e., public safety, infrastructure impacts, etc.

The City of Cupertino imposes a Business License Tax. This tax is based on the type of business and square footage of any floor area, less fifteen percent. City staff proposed an updated employee-based tax in 2018 that was not approved by Cupertino's City Council.

In the November 2024 election, there were 15 cities in California that proposed general revisions or updates to their business license or special operations taxes, all of which passed.

There would likely be an additional administrative expense associated with increased monitoring of the collection and audit relative to the City's current fee structure.

Implementation Process

Increases to a business license tax require a ballot measure approved by the residents of the city. Placing a measure on the ballot requires City Council approval with a two-thirds vote for general purpose funding (4 out of 5 for the City of Cupertino) or a simple majority for special purpose funding. Voter approval of a majority (50% plus 1) is required for general purpose funding and two-thirds for special purpose funding.

Pros and Cons

Pros

Business license taxes can generate a significant amount of revenue. Voter approval is by the residents and not necessarily the business owners, with residents more likely to approve the tax.

Cons

It can be considered a regressive tax in that the amount that businesses pay is considered a cost of doing business and therefore passed on to customers in the cost of goods and services.

A business license tax, depending on the amount, may dissuade businesses, most likely small businesses, from locating or staying within the City. However, the tax structure can be tailored to minimize the impact on small or locally owned businesses through tiered rates, exemptions, or lower thresholds for certain classifications.

Potential Revenue Estimates

There are several different models that cities use for business license taxes. Some are based on flat fees, based on the number of employees, or gross revenue generated by the business. A city can impose differing tax rates based on the classification of a business. However, more variations in tax rates make the administration and collection of the tax more complicated and thus more costly.

Presently, HdL's business license division administers business license programs for 136 cities in California. The recommended structure for a newly implemented business license tax is based on the gross receipts model. This model is the least regressive approach

because it is based on the revenue increases of the business and not other factors such as employees or a flat fee.

Given the variation in models, one way to estimate potential revenue is to look at one or more peer cities in the region that currently impose a business license tax, determine their actual tax on a per establishment basis, and extrapolate it to Cupertino by the number of establishments that typically require a business license. This study uses this approach to estimate the revenue from gross receipts and employment-based models. It also includes an analysis of the potential revenue from the model proposed by City staff in 2018.

City Model-Based Rate Approach - Gross Receipts

HdL identified the City of East Palo as the closest city to Cupertino with a gross receipts tax. Their estimated business license tax and fee revenue was extrapolated on a per license basis to Cupertino using city-level business license data.

Analysis of Business License Tax and Fee Revenue Based on Average Per License	
Description	Amount
Total Number of East Palo Alto Business Licenses	1,729
East Palo Alto Business License Tax and Fee Revenue	\$2,290,256
East Palo Alto Average Tax and Fee Revenue Per License	\$1,325
Number of Business Licenses in Cupertino	2,986
Potential Business License Tax and Fee Revenue Based on Average Per License	\$3,955,295
City of Cupertino Business License Fee Revenue	\$831,321
Additional Potential Revenue from a Business License Tax	\$3,123,974

Source: California State Controller's Office and Cupertino and East Palo Alto Business License Data

Based on the per-license analysis, it is estimated that the City could achieve approximately \$3.12 million in additional annual revenue based on the assumptions in the analysis scenario. The revenue data was reported by cities to the State Controller's Office (SCO) and therefore was recorded into a common database based on the SCO's reporting requirements. This is more accurate than drawing the information from each city, each of which may choose different reporting formats, dates, and/or criteria.

City Model-Based Rate Approach - Employment

HdL identified the City of Mountain View as the most similar city to Cupertino with an employment tax. Their estimated business license tax and fee revenue was extrapolated on a per-license basis to Cupertino using city-level business license data.

Analysis of Business License Tax and Fee Revenue Based on Average Per License	
Description	Amount
Total Number of Mountain View Business Licenses	5,900
Mountain View Business License Tax and Fee Revenue	\$5,595,339
Mountain View Average Tax and Fee Revenue Per License	\$948
Number of Business Licenses in Cupertino	2,986
Potential Business License Tax and Fee Revenue Based on Average Per License	\$2,831,811
City of Cupertino Business License Fee Revenue	\$831,321
Additional Potential Revenue from a Business License Tax	\$2,000,490

Source: California State Controller's Office and Cupertino and Mountain View Business License Data

Based on the per-license analysis, it is estimated that the City could achieve approximately \$2 million in additional annual revenue based on the assumptions in the analysis scenario.

Proposed 2018 Cupertino Model-Based Approach

The City of Cupertino proposed an employment tax on businesses in 2018 that was not approved by City Council. This measure was supported by a survey of local businesses' employment to estimate business license tax and fee revenue. Revenue from this measure was estimated for present-day Cupertino by extrapolating city-level business license data using the 2018 distribution of businesses and employees.

Analysis of Business License Tax and Fee Revenue Based on 2018 Draft Ordinance				
Employee Range	Number of Businesses	Employee Count	Base Rate	Employee Rate
1-9	2,669	2,901	\$150	\$0
10-49	256	3,413	\$500	\$0
50-99	34	2,040	\$500	\$0
100-249	21	2,772	\$500	\$50
250-499	4	1,040	\$500	\$100
500-999	1	600	\$500	\$200
1,000 - 4,999	-	-	\$500	\$300
5,000+	1	24,000	\$500	\$425

Source: Cupertino Draft Ordinance, 2018 Business Study, and Business License Data

Based on this analysis, it is estimated that the City could achieve approximately \$10.29 million in additional annual revenue based on the assumptions in the analysis scenario.

BUSINESS LICENSE TAX FOR RIDE-SHARE SERVICES

Description

A ride-share tax is a component of a business license tax specific to ride-share services (transportation network companies) that operate within the physical boundaries of the city. Cities are prohibited from imposing any tax independent of a business license tax on these services. Ride-share operators are subject to city business license taxes as independent contractors.⁴ Additionally, taxes on transportation network companies can also be levied on the gross receipts that occur within the city. The structure of the tax can vary according to the discretion of the city.

In California, the City of San Francisco is the only city that includes a ride-share specific provision in its business license tax. The City of San Francisco charges a 1.5% tax on the gross receipts of shared rides and 3.25% tax on the gross receipts of all other rides that originate in San Francisco for the portion of the trip within the city (Proposition D).

There would be a cost to administer the collection and auditing of the tax. That cost could vary depending on the structure of the tax and if the City chooses to administer the collection in house or contract with a third-party. It would likely be substantial. For example, enforcement of the business license tax for ride-share operators in San Francisco required two years of compliance actions with multiple requests for information and subpoenas.⁵

Implementation Process

A ride share tax would be part of a business license tax, which requires a ballot measure approved by the residents of the City. Placing a measure on the ballot requires City Council approval with a two-third vote for general purpose funding (4 out of 5 for the City of Cupertino) or a simple majority for special purpose funding. Voter approval of a majority (50% plus 1) is required for general purpose funding and two-thirds for special purpose funding.

Pros and Cons

Pros

Taxes on ride shares are borne by both residents and non-residents purchasing goods and services from businesses in the taxing jurisdiction.

If the cost of the tax is transferred to riders, it could disincentivize car trips and reduce traffic congestion.

Cons

The tax can be seen as regressive if based on a fixed percentage of the ride share. Individuals without a car may rely more heavily on these services.

⁴ Based on the California Supreme Court decision in *Castellanos vs State of California* ([2024](#)).

⁵ San Francisco Treasurer ([2016](#)).

The tax can be difficult to enforce, depending on the structure.

Potential Revenue Estimates

To determine the potential revenues for a ride-share tax, further input would need to be provided on the scope and structure of the tax. Research would also need to be done on the number of ride-share operators, the value of ride-share trips originating in the City, and the portion of those trips that are within the City's boundaries.

SUMMARY

Vacancy Tax

A vacancy tax is a form of excise tax on unoccupied properties for lease and sale in the physical boundaries of the city. The structure of the tax can vary according to the discretion of the city. The cost to administer and enforce the tax would likely be substantial and lawsuits have paused administration of approved measures. Based on a potential excise tax on unused short-term rentals and vacant properties, such a tax could generate between \$846,984 and \$1.4 million in tax revenue

Transactions and Use Tax (TUT)

From experiences of other cities, a TUT has one of the higher feasibilities of voter approval than other tax options. One of the reasons is that a portion of the revenue collected will come from non-residents making purchases within the city, and the fact that many surrounding communities already impose a similar tax. The potential revenue generated is on the higher side of other options, at approximately \$5.4 million in annual revenue for a 0.25% tax. HdL estimates that 28.8% of a Cupertino TUT would be paid by non-residents.

Parcel Tax

Parcel tax revenue can only be used for the specific purpose for which the tax is levied. The tax is borne by the property owners within the city. The feasibility of passing a ballot measure is less than other tax forms because of this fact and the requirement to demonstrate the specific purpose of the tax. The cost of administration is less than other tax options because the collection is the responsibility of the County. The revenue estimates depend on the amount of tax levied for specific parcels and must be tied to the nexus of the fee to service.

Business License Tax

The feasibility of voter approval of a business license tax may be slightly less than a TUT. The tax is borne by the businesses in the city, who may pass on the additional cost in higher prices for goods and services. There are many variations in how the tax is structured. This report estimates adoption of a tax structure similar to nearby cities could generate between \$2 and \$10.2 million in annual revenue depending on the selected structure of the tax.

Business License Tax for Ride Share Services

A ride-share tax is a form of business license tax on ride share services that operate within the physical boundaries of the city. These businesses may pass on the additional cost in higher prices for goods and services. The structure of the tax varies by jurisdiction but is generally based on the value of vehicle trips that originate in the city for the portion of the trip within the city. To determine the potential revenue, further input would be needed on the scope and structure of the tax, along with additional research.

Potential Tax Summary

		Potential Tax Evaluation Matrix			
		Administrative Ease	Equity	Revenue Potential	Estimated Compliance and Administrative Costs
Possible Tax Types	Vacancy Tax	There would be costs and effort with setting up the tax and notifying property owners and tracking and monitoring the collections.	Potentially regressive if exemptions are not provided for financial hardship.	\$846,984 - \$1.4 million	Substantial costs to monitor compliance. Monitoring and compliance would require an in-house or third-party to administer.
	Transactions and Use Tax	There would be costs and effort with setting up the tax and notifying businesses and tracking and monitoring the collections.	Regressive, but nonresidents would pay a percentage of tax within City purchases (28.8%).	\$5.4 million per 0.25%	There would be an additional cost to monitor the increased tax, but that cost is minimal.
	Parcel Tax	Prior to placing the ballot on the measure there is a requirement for a study to quantify the nexus of the fee to service. Monitoring and verifying the collection would most likely require a third party	Somewhat regressive and impacts only property owners.	\$435 thousand - \$20.5 million	Monitoring and compliance would require an in-house or third-party to administer.

	Business License Tax	A change in the structure would require notification to business and for the county to change its administration process. There would be costs and effort tracking and monitoring the collections.	Potentially regressive. Tax is only on businesses, but they may pass extra costs to customers.	\$2 - \$10.2 million	Monitoring and compliance would require an in-house or third-party to administer.
	Business License Tax for Ride Share Services	There would be costs and effort with setting up the tax and notifying businesses and tracking and monitoring the collections.	Potentially regressive. Tax is only on businesses, but they may pass extra costs to customers.	Additional research required	Substantial costs to monitor compliance. Monitoring and compliance would require an in-house or third-party to administer.

Resident vs. Non-Resident Analysis

The City of Cupertino has requested an estimate of the approximate amount of sales and use tax revenue generated by residents versus non-residents. Individuals, and businesses residing and located within the city will collectively be referred to as residents, while individuals and businesses residing and located outside of the city will collectively be referred to as non-residents.

The table below summarizes the results of the analysis based on actual Bradley-Burns local Sales and Use Tax and estimated Transactions and Use Tax (TUT) revenue data for 2023 (fiscal year). It also reflects the percentage of sales and use tax estimated by non-residents for each of the seven major industry groups. The Bradley-Burns Sales and Use Tax is a uniform tax administered by the state, of which 1% is allocated to the jurisdiction where the sale is negotiated or the order is taken. Transactions and use taxes are administered by local jurisdictions and allocated to the district where a purchase is delivered or placed into use.

HdL estimates that 92.9% of Bradley-Burns local Sales and Use tax revenue in fiscal year 2023 was generated by non-residents, while the percentage of a proposed 0.25% TUT paid by non-residents is estimated at 28.8%.

Percent of Sales and Use Tax Revenue Generated from Non-Resident Spending

Economic Segment	Non-Resident Bradley-Burns Sales and Use Tax (SUT)	Non-Resident Transactions and Use Tax (TUT)
Autos and Transportation	54.3%	1.7%
Building and Construction	69.1%	13.6%
Business and Industry	97.4%	9.0%
Food and Drugs	69.1%	69.1%
Fuel and Service Stations	69.1%	69.1%
General Consumer Goods	69.1%	38.1%
Restaurants and Hotels	69.1%	69.1%
Estimated Percentage of Tax Revenue Generated by Non-Residents	92.9%	28.8%