



ADMINISTRATIVE SERVICES DEPARTMENT

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CITY COUNCIL STAFF REPORT

Date: March 17, 2026

Subject

Follow-Up Analysis of Potential Revenue Ballot Measure Options

Recommended Action

Receive the follow-up analysis regarding potential revenue ballot measure options and provide direction to staff regarding further evaluation or pursuit of tax ballot measures for potential revenue measures, including business license tax restructuring, Utility Users Tax considerations, and local sales tax options.

Background

On February 19, 2026, the City Council received a staff report discussing potential revenue ballot measure options and possible placement of a measure on the November 2026 ballot. The report presented several revenue tools analyzed by the City's consultant, HdL Companies, including a Transactions and Use Tax (sales tax), Business License Tax modifications, a Vacancy Tax, and a Parcel Tax.

At that meeting, the City Council requested further analysis of business tax, Utility Users Tax (UUT), and sales tax options; to evaluate reductions to the Capital Improvement Program (CIP) budget and staffing; and measures to enhance Cupertino's business competitiveness.

Revenue Options for Council Consideration

This report provides information in response to Council's direction on February 19 and outlines several fiscal considerations that may inform Council's discussion regarding potential revenue measures in greater detail.

Utility Users Tax (UUT)

A Utility Users Tax (UUT) is a locally imposed tax on the consumption of utility services such as electricity, gas, telecommunications, cable television, and other utility 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.

Cupertino currently imposes a 2.4% Utility Users Tax on telephone, electricity, and gas utilities, which is scheduled to sunset in 2030. The City also provides a Utility Users Tax exemption for qualifying senior residents, which reduces the tax burden for eligible households. According to

HdL's analysis, approximately 156 cities in California currently levy a UUT, with most rates typically ranging between 4% and 5%.

HdL's follow-up analysis identified several potential approaches should the City wish to modify or modernize the tax:

- Increase the existing UUT rate
- Extend or remove the sunset provision
- Modernize ordinance language to include additional utilities, such as cable television or technology-neutral telecommunications services
- Expand the tax base to additional utility categories, depending on policy direction

Based on HdL's extrapolation of Cupertino's most recent UUT revenue:

- The current 2.4% UUT generates approximately \$3.9 million annually
- Increasing the rate to 4.8% could generate approximately \$7.9 million annually

HdL also evaluated modernization of the UUT ordinance based on comparable jurisdictions. Under one scenario, modernizing the tax structure could generate approximately \$1.1 million in additional annual revenue, depending on how the tax is structured and which utilities are included. However, revenue potential could range from approximately \$343,000 to \$4.4 million depending on the policy design

While UUT revenues have historically been relatively stable, HdL notes that the tax is generally considered regressive, as it applies to essential household utilities. Additionally, changes in technology and energy consumption patterns may affect long-term revenue growth.

Transactions and Use Tax (Local Sales Tax)

A Transactions and Use Tax (TUT) is a local sales tax added to the statewide base rate and collected by the California Department of Tax and Fee Administration. The City currently has capacity under the statewide cap to increase its local sales tax rate by up to 0.25%. Sales taxes require majority voter approval if structured as a general tax and would generally take effect on April 1 following a November election.

According to the February HdL analysis:

- A 0.125% increase could generate approximately \$2.7 million annually
- A 0.25% increase could generate approximately \$5.4 million annually
- Approximately 28.8% of the revenue is estimated to be generated by non-residents

Sales taxes apply broadly to retail purchases of tangible goods such as clothing, furniture, and electronics. However, several categories are exempt from the tax, including groceries, prescription medications, and certain medical devices.

HdL notes that sales taxes have the advantage of generating revenue from non-resident consumers who make purchases within the City, although revenues may fluctuate with economic conditions.

Business License Tax

Cupertino currently levies a Business License Tax established in 1992, with rates adjusted annually by the Consumer Price Index for the San Francisco/Bay Area Standard Metropolitan Statistical Area, as outlined in Municipal Code Section 5.04.460. While the rates are adjusted annually by CPI, the underlying tax structure has not been significantly updated since 1992.

The following table provides a comparison of the City’s business license revenue per capita in each Santa Clara County city and its primary tax model:

Comparison of Per Capita Business License Tax and Fee Revenue		
City	Amount	Primary Model ^[1]
Cupertino	\$14.19	Square footage
Campbell	\$15.58	Employees/rental units
Gilroy	\$14.98	Gross receipts/Rental units
Los Altos	\$15.46	Employees/rental units
Los Altos Hills	\$26.91	Flat Fee
Los Gatos	\$46.36	Gross receipts
Milpitas	\$4.25	Employees/rental units
Monte Sereno	\$6.78	Flat Fee
Morgan Hill	\$8.30	Employees/rental units
Mountain View	\$66.82	Employees
Palo Alto	\$80.93	Square footage
San Jose	\$88.66	Employees/rental units
Santa Clara	\$37.51	Employees/rental units
Saratoga	\$17.07	Employees/rental units
Sunnyvale	\$12.57	Employees/rental units

^[1] Note the business license model in each city can vary depending on the type of business

This comparison illustrates that Cupertino’s per capita business license tax revenue is in the lower end of its neighboring jurisdictions.

If Council wishes to pursue restructuring of the Business License Tax, potential approaches could include:

- Adjustments to the rate structure
- Implementation of employee-based or gross receipts-based tiers
- Creation of industry-specific tax categories

While a restructuring of the Business License Tax could increase City revenues and align Cupertino more closely with certain neighboring jurisdictions, it may also have implications for the City’s business climate. Increasing business taxes could be perceived as contrary to the City’s goal of maintaining a business-friendly environment and supporting economic competitiveness. As such, any potential modifications to the Business License Tax would need to be carefully evaluated in the context of the City’s broader economic development objectives. Additional considerations related to maintaining and enhancing Cupertino’s competitiveness as a place to do business are discussed further in the Business Competitiveness Considerations section below.

CIP and Staffing Considerations

Council also directed staff to evaluate potential reductions to the Capital Improvement Program (CIP) budget and staffing levels.

On March 3, 2026, the City Council approved the proposed Capital Improvement Program (CIP). However, the CIP will return to Council in June as part of the FY 2026–27 Proposed Operating Budget for final approval. At that time, Council will have the opportunity to evaluate whether any existing projects should be postponed, phased, or cancelled as part of broader fiscal considerations.

Additionally, staff is currently evaluating the City’s staffing needs and operational priorities as part of the development of the FY 2026–27 Proposed Budget. Staff is working to identify potential efficiencies and cost containment measures while seeking to minimize impacts to core services provided to the community.

As part of this process, staff is continuing to monitor the City’s fiscal outlook, including the potential impact of the proposed Sheriff’s contract increase, which remains under negotiation with Santa Clara County. Staff will continue evaluating available options and will provide additional information and recommendations through the upcoming budget process as more clarity becomes available regarding the City’s long-term financial obligations.

Business Competitiveness Considerations

In addition to evaluating revenue measures, Council requested analysis regarding ways to enhance Cupertino’s business competitiveness.

Potential considerations may include:

- Ensuring tax structures remain competitive relative to neighboring jurisdictions
- Reviewing development review timelines and permitting efficiency
- Evaluating targeted incentives for key commercial sectors
- Supporting economic development strategies that expand the City’s tax base

Staff will continue coordinating with the Economic Development and Community Development teams to evaluate potential policy approaches.

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. There may also be opportunities for cost efficiencies, as the City is currently pursuing a parkland ballot measure and may be able to utilize the same consultant should Council wish to pursue a tax ballot measure, potentially reducing overall consulting costs.

City Work Program (CWP) Item/Description

None

City Council Goal

Fiscal Strategy

California Environmental Quality Act

No California Environmental Quality Act impact.

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

B – Revenue Tax Measure (2026.02.19)

C – Revenue Enhancement Opportunities Report (02.2026)