

# CITY OF CUPERTINO REVENUE ENHANCEMENT OPPORTUNITIES REPORT

## – ADDENDUM FOR ADDITIONALLY REQUESTED INFORMATION

### 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. This addendum provides information in response to follow-up questions from the Cupertino City Council.

This addendum provides information requested by the City Council on:

- Utility Users Tax
- Transactions and Use Tax
- Business License Tax

### UTILITY USERS TAX

#### **Description**

A Utility Users Tax (UUT) may be imposed by a city on the consumption of utility services, including (but not limited to) electricity, gas, water, sewer, telecommunications, sanitation, and cable television and other video services. Covered telecommunications and video services can respectively include VoIP and messaging and streaming when the ordinance language is sufficiently broad and technology neutral. The rate of the tax and the use of its revenues are determined by the city. The rate of tax may also vary by the utilities being taxed. For example, a city may choose to tax some categories of utilities at 6% and others at 4% or not at all. The city may also choose to tax only residential or only commercial customers for each category of utility. The tax is collected by the utility as part of its regular billing cycle and then remitted to the city. Most city UUT levies are general taxes.

Currently, 156 cities in California levy utility users taxes. Across the state, UUT rates vary from one to 11 percent. The typical rate is four to five percent. The City of Cupertino imposes a UUT on telephone, electricity, and gas utilities that will sunset in 2030. Cities with a UUT in Santa Clara County include Cupertino, Gilroy, Los Altos, Mountain View, Palo Alto, San Jose, and Sunnyvale.

There would likely be an additional administrative expense associated with any change in the tax from increased monitoring of the collection and audit of the UUT.

#### **Implementation Process**

Implementation or modification of a UUT 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. The tax measure can include a ‘sunset’ of the tax.

From June 2002 through November 2024, there were 99 measures to increase or adopt a new UUT, of which 34 passed (34%). Of these taxes, 11 were special taxes designated for a specific purpose. Among the 88 general taxes, 12 were accompanied by advisory measures. There were also 93 measures to modernize UUTs, of which 83 passed (89%). Cupertino could update its UUT by extending or removing the sunset, increasing the rate of the tax or modifying its ordinance language to include water and cable television utility services and technology-neutral definitions of video and telecommunications services.

As described previously, there are many variations as to which users can be taxed, such as residents and/or commercial customers, which categories of utilities it applies to, and what rate applies to each. If the City were to consider an increase or change to its existing UUT, a separate analysis should be conducted. Issues to be analyzed include who should be taxed, which categories of utilities it should apply to, and at what rates.

Collection of the revenue is the responsibility of the various utilities and are remitted to the city on a regular schedule based upon negotiations with the utilities. Any time there is a reliance on an outside agency responsible for collection and remittance there are greater chances of errors. This can be further complicated if there are many variations to the UUT rates.

## **Pros and Cons**

### Pros

Depending on the percentage of the tax, UUTs can generate a significant amount of revenue that can be used for general purposes.

Traditionally, UUTs are a dependable and consistent revenue stream. Revenues can increase gradually over time as the cost of the utility rates increase.

### Cons

The tax is considered regressive in that the most common utilities taxed include electricity, gas and water which are basic household utilities. The utility rates users pay are based upon consumption. Therefore, the more you use the higher your bill. Property owners or tenants with lower incomes pay a disproportionate percentage of their income on utilities and the UUT.

The tax is on the utility consumption of residents and businesses in the city. Businesses may also choose to pass on the cost of the UUT to their customers in the form of higher prices.

While historically the revenue stream has been consistent, with current and future changes in the availability of some utilities such as water and energy, UUT revenue may become more of a volatile revenue source with greater fluctuations.

## **Potential Revenue Estimate**

Estimating potential revenue can be complex. It depends on the percentage of the tax and the utilities that the city chooses to impose the tax on. This varies from jurisdiction to jurisdiction. In addition, revenues collected by many utilities are proprietary information,

so it is difficult to know exactly the amount of revenue collected by certain utilities. The following revenue estimates reflect Cupertino’s options to increase or broaden its UUT.

Increase Existing UUT Rate – Extrapolation Approach

The City’s current UUT rate is 2.4%. This report estimates additional revenue based upon doubling the rate to 4.8%. The estimates are based upon the actual revenue the City received in the last year for which actual data is available (FY2024). In summary each 1% increase in the UUT could generate approximately \$1,639,966 in additional revenue.

Analysis of UUT Revenue Based on Extrapolation of Actual Revenue	
Tax Rate	Estimated Revenue
2.4% (Current Rate)	\$3,935,918
4.8% (Doubled)	\$7,871,836

Modernize UUT Ordinance– Extrapolation Approach

One way to estimate potential revenue is to look at one or more peer cities in the region that currently impose the tax, estimate the tax base of their actual revenue on a per capita basis, and extrapolate it for the City of Cupertino’s population based on the City’s current UUT rate of 2.4%. As is demonstrated in the chart below, the tax rates vary from city to city. HdL identified six cities in Santa Clara County with a UUT in addition to Cupertino: Gilroy, Los Altos, Mountain View, Palo Alto, San Jose, and Sunnyvale.

Utility Users Tax Rate - As of February 2026							
County:	Santa Clara County						
Jurisdiction:	Cupertino	Gilroy	Los Altos	Mountain View	Palo Alto	San Jose	Sunnyvale
Population	58,566	59,004	30,698	83,732	67,237	990,138	154,236
Amount Collected FY 2024	\$3,935,918	\$6,563,469	\$3,517,437	\$7,647,779	\$19,012,528	\$152,062,539	\$10,816,575
Telephone: Intrastate Residential	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: Intrastate Commercial	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: Interstate Residential	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: Interstate Commercial	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: International Residential	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: International Commercial	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: Wireless Residential	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
Telephone: Wireless Commercial	2.4%	5.0%	3.2%	3.0%	4.75%	5.0%	2.0%
VoIP		4.5%	4.5%			4.5%	
Electricity - Residential	2.4%	5.0%	3.5%	3.0%	5.0%	5.0%	2.0%
Electricity - Commercial	2.4%	5.0%	3.5%	3.0%	5.0%	5.0%	2.0%
Gas - Residential	2.4%	5.0%	3.5%	3.0%	5.0%	5.0%	2.0%
Gas - Commercial	2.4%	5.0%	3.5%	3.0%	5.0%	5.0%	2.0%
Cable TV - Residential	-	5.0%	3.2%				
Cable TV - Commercial	-	5.0%	3.2%				
Water - Residential	-		3.5%		5.0%		
Water - Commercial	-		3.5%		5.0%		
Sewer - Residential	-						
Sewer - Commercial	-						
Garbage - Residential	-						
Garbage - Commercial	-						

Source: League of California Cities and California State Controller's Office

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. Of these nearby cities, HdL identified Los Altos as most similar to Cupertino. Their estimated taxable utility spending was extrapolated on a per capita basis to Cupertino based on a 2.4% UUT rate.

Analysis of UUT Revenue Based on Average Per Capita	
Description	Amount
Total Population of Selected Peer Cities	30,698
Total UUT Revenue of Surveyed Cities	\$3,517,437
Estimated Utility Spending of Surveyed Cities	\$109,919,906
Average UUT Per Capita with a 2.4% Rate	\$86
Cupertino Population	58,566
Potential UUT Revenue based on Average Per Capita	\$5,032,955
City of Cupertino UUT Revenue	\$3,935,918
Additional Potential Revenue from UUT Modernization	\$1,097,037

Based upon the per capita analysis, it is estimated that the city could achieve approximately \$1.09 million in additional annual revenue from modernizing its UUT based upon the assumptions in the analysis scenario. However, based on the selected structure, this additional revenue could be between an estimated \$343,448 and \$4.4 million.

**Transactions and Use Tax**

**Taxable Goods and Services**

Sales taxes are applicable to all goods and services subject to the statewide Sales and Use Tax. Retail sales of tangible personal property in California are generally subject to sales tax. Examples of taxable items include furniture, giftware, toys, antiques, and clothing. In addition, some service and labor costs are subject to sales tax if they result in the creation of tangible personal property. 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.<sup>1</sup>

**Breakdown of City Sales Tax Rate**

Starting April 1, 2026, the total sales tax rate in Cupertino will be 9.75%. This includes the state base Sales and Use Tax rate of 7.25% and 2.5% in locally administered Transactions and Use Taxes. The state legislature has also authorized an additional 0.5% county-wide add-on exempt from the cap for voter approval in 2026.

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<sup>1</sup> CDTFA publication 61, Sales and Use Taxes: Tax Expenditures provides a complete overview of exempt sales from Sales and Use Tax and Transactions and Use Tax ([Publication](#)).

Tax District	Sales Tax Rate (Total)	Contribution to 2% Cap (Total)	Effective Date (Sunset)
State Base Sales and Use Tax	7.25%	-	-
Santa Clara County Transit District	0.50% (7.75%)	0.50%	10/1/1976
Santa Clara County Valley Transportation Authority	0.50% (8.25%)	0.50% (1.0%)	4/1/2006 (2036)
Santa Clara VTA BART Operating and Maintenance TUT	0.125% (8.375%)	0.125% (1.125%)	7/1/2012 (2042)
Santa Clara County Retail TUT	0.125% (8.5%)	0.125% (1.25%)	4/1/2013
Silicon Valley Transportation Solutions Tax	0.50% (9.0%)	0.50% (1.75%)	4/1/2017 (2047)
2020 Peninsula Corridor Joint Powers Board Retail TUT	0.125% (9.125%)	Exempt	7/1/2021
Measure A Santa Clara County Sales Tax Increase	0.625% (9.75%)	Exempt	4/1/2026 (2031)
Public Transit Revenue Measure District	0.50% (10.25%)	Exempt	2026 Ballot Measure (2041)

**Distribution of Sales Tax Revenue Collected in the City of Cupertino**

The City of Cupertino currently only directly receives sales tax revenue from the Bradley-Burns locally collected portion of the state base Sales and Use Tax revenue. Some other state funding may pass through to Cupertino. Other local sales taxes are administered by Caltrain, Santa Clara County, and the Santa Clara Valley Transportation Authority. No Santa Clara County taxes are strictly earmarked to any department.

Tax District	Collecting Agency	Purpose	Funds Distribution
State Base Sales and Use Tax  (See the <a href="#">CDTFA</a> website for more information)	CDTFA	-	<ul style="list-style-type: none"> <li>• 3.9375% - State General Fund</li> <li>• 0.5% - Local Public Safety Fund</li> <li>• 0.5% - Local Revenue Fund for health and social services</li> <li>• 1.0625% - Local Revenue Fund 2011</li> <li>• 1% - City of Cupertino</li> <li>• 0.25% - Santa Clara County transportation fund</li> </ul>
Santa Clara County Transit District	Santa Clara Valley Transportation Authority	Special	0.5% - Santa Clara Valley Transportation Authority
Santa Clara County Valley Transportation Authority	Santa Clara Valley Transportation Authority	Special	0.5% - Santa Clara Valley Transportation Authority
Santa Clara VTA BART Operating and Maintenance TUT	Santa Clara Valley Transportation Authority	Special	0.125% - Santa Clara Valley Transportation Authority
Santa Clara County Retail TUT	Santa Clara County	General	0.125% - Santa Clara County
Silicon Valley Transportation Solutions Tax	Santa Clara Valley Transportation Authority	Special	0.5% - Santa Clara Valley Transportation Authority
2020 Peninsula Corridor Joint Powers Board Retail TUT	Caltrain	Special	0.125% - Caltrain
Measure A Santa Clara County Sales Tax Increase	Santa Clara County	General	0.625% - Santa Clara County
Public Transit Revenue Measure District	Public Transit Revenue Measure District	General	To be prescribed – Caltrain, San Francisco Bay Area Rapid Transit District, San Francisco Municipal Transportation Agency, San Mateo County Transit District, Santa Clara Valley Transportation Authority

**Explanation of Santa Clara County Measure A**

Santa Clara County voters approved Measure A to impose a 0.625% county-wide Transactions and Use Tax in 2025 for general use of funds. The tax will go into effect April 1, 2026, for five years. This will bring the total sales tax rate in Cupertino to 9.75%. The purpose of the tax is to generate general revenue for the County. Although the County can choose to allocate revenue as it deems appropriate, the stated purpose is to cover

funding-cuts resulting from U.S. H.R.1 ([2025-2026](#)). This funding is intended to be used for healthcare and other county services, such as food assistance, behavioral health care, homelessness services and public safety, but there is no mandated distribution of funds.

### Business License Tax

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.

HdL reviewed business license tax and fee models for Santa Clara County and all fifteen of its incorporated cities. An overview of the associated revenue per capita in each city and its business license tax model is included below.

Comparison of Per Capita Business License Tax and Fee Revenue		
City	Amount	Primary Model <sup>2</sup>
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

*Source: California State Controller's Office*

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

HdL extrapolated business license tax and fee revenue from each city in Santa Clara County to Cupertino on a per capita basis. It is important to keep in mind that variation in

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<sup>2</sup> Note the business license model in each city can vary depending on the type of business

revenue will be impacted by the number and mix of businesses and the business type tax rates for individual cities.

Analysis of Business License Tax and Fee Revenue Based on Average Per Capita		
City	Population Adjusted Business License Tax and Fee Revenue	Additional Potential Revenue
Campbell	\$912,254	\$80,933
Gilroy	\$877,251	\$45,930
Los Altos	\$905,354	\$74,033
Los Altos Hills	\$1,575,871	\$744,550
Los Gatos	\$2,715,122	\$1,883,801
Milpitas	\$248,634	(\$582,687)
Monte Sereno	\$397,169	(\$434,152)
Morgan Hill	\$486,209	(\$345,112)
Mountain View	\$3,913,637	\$3,082,316
Palo Alto	\$4,739,552	\$3,908,231
San Jose	\$5,192,437	\$4,361,116
Santa Clara	\$2,196,989	\$1,365,668
Saratoga	\$999,680	\$168,359
Sunnyvale	\$736,299	(\$95,022)

Based upon the per capita analysis and assumptions in the analysis scenario, it is estimated that Cupertino could achieve between \$45,930 - \$4.3 million in additional revenue from adoption of a business license tax model from a nearby city in Santa Clara County. This depends on the selected model and its applicability to Cupertino.