



**TOWN OF LOS GATOS
COUNCIL AGENDA REPORT**

MEETING DATE: 09/16/2025

ITEM NO: 12

DESK ITEM

DATE: September 16, 2025
TO: Mayor and Town Council
FROM: Chris Constantin, Town Manager
SUBJECT: **Authorize the Town Manager to Execute a Fourth Amendment with HdL Companies for Business License Discovery and Compliance Audit Services, Sales and Use Tax Management and Audit Services, and Transient Occupancy Tax (TOT) Audit Services with a Total Contract Not to Exceed of \$451,500 plus CPI; and Approve a Resolution Granting a Waiver of Business License Late Fee Penalties for Businesses Undergoing the Business License Discovery and Compliance Audit Process.**

REMARKS:

Attachment 7 includes public comment received before 11:00 a.m. on Tuesday, September 16, 2025, and Attachment 8 contains the staff presentation.

Attachments Provided with the Staff Report:

1. Fourth Amendment with HdL Companies
2. Third Amendment with HdL Companies
3. Second Amendment with HdL Companies
4. First Amendment with HdL Companies
5. Original Agreement with HdL Companies
6. Draft Resolution

Attachments Provided with this Desk Item:

7. Public Comment received between before 11:00 a.m. on Tuesday, September 16, 2025
8. Staff Presentation

Reviewed by: Town Manager, Assistant Town Manager, Town Attorney, and Finance Director

From: [Nadine](#)
To: [Clerk](#)
Subject: Public Comment Item #12 - Sept 16 2025
Date: Tuesday, September 16, 2025 10:00:51 AM

[EXTERNAL SENDER]

Re: Fourth Amendment with HdL Companies - Business License Discovery and Compliance Audit Services

Members of the Council;

I urge the Council to delay this vote until basic transparency and system functionality are addressed. As someone who recently applied for a business license in Los Gatos, I experienced firsthand the dysfunction that would be imposed on 1,000 businesses through this audit program. The fundamental issue is a complete lack of basic resources that is standard in every other municipality I've researched. Los Gatos provides no centralized fee schedule, forcing potential business owners to hunt through dense town ordinances to find basic cost information. Additionally, the town's business license website contains at least six broken links, including the Measure J information link and every business resource link at the bottom of the page. This lack of transparency and basic organization creates unnecessary barriers to business formation and compliance.

For examples of working municipal websites which are well-organized and accessible, see:

1. Campbell Business Licenses (<https://campbellca.gov/152/Business-Licenses>)
2. Saratoga Business License (<https://www.saratoga.ca.us/187/Business-License>)
3. Santa Cruz Licenses, Fees, and Taxes (<https://www.cityofsantacruz.com/government/city-departments/finance/licenses-fees-and-taxes>)

All provide clear business license fee schedules on their websites. Los Gatos is the outlier.

I'm also concerned about HdL's incentives under this contract structure. HdL receives percentage-based compensation from recovered revenue (15-35% depending on the service), meaning they profit more when information is harder to find and compliance is more difficult. This creates a perverse incentive where HdL benefits financially from towns maintaining poor transparency rather than improving it. Why would we pay a consultant who profits from the very problem we need to solve?

Before spending \$178,500 to expand this broken system, fix basic transparency first, then add performance benchmarks to any contract. Don't subject our business community to a process that fails to meet basic standards.

Submitted By: Nadine Swenberg
Date: September 16, 2025
Contact: [REDACTED]

HdL Companies Agreement – Fourth Amendment

Town Council
September 16, 2025
Item 12

Agenda and Recommendations

- **Authorize** the Town Manager to execute the Fourth Amendment with HdL Companies for continued Business License Support, Business License Discovery and Compliance Audit, TOT Audit, and Sales and Use Tax Management Services
- **Adopt a Resolution** to waive late fee penalties for businesses actively undergoing audits.

Background

- HdL has supported the Town since 2022
- Measure J (2022) modernized the business license tax program
- Current agreement does not include audit or delinquency services
- Council 2025-26 Budget Direction for Business License and TOT Audit

What's New in the Fourth Amendment

- Extends contract to **June 30, 2027**
- Adds services:
 - Business License Discovery & Compliance Audits
 - Transient Occupancy Tax (TOT) Audits
 - Sales & Use Tax Management & Audits
- Increases contract by **\$193,500** (new total: **\$451,500 + CPI**)

Fee Structure Overview

- **Contingency-based fees** for recovered revenue:
 - 35% for discovery/audit
 - 25% for collections
- **Fixed fees** for:
 - TOT audits (\$5,000/property)
 - Sales tax analysis (\$450/month)
- Monthly reporting and revenue remittance

Resolution - Late Fee Penalty Waiver

- Encourages **voluntary compliance**
- Waives penalties for businesses that:
 - Are identified during audit
 - Cooperate fully
 - Pay back taxes within **90 days**
- Excludes willful evasion or fraud

Amnesty Program Benefits

- Promotes fairness and transparency
- Reduces administrative burden
- Builds goodwill with business community
- Aligns with best practices in municipal compliance

Potential Concerns

- Lack of awareness about the requirement
- Burden on retroactive billing and potential penalties
- Disputes about revenue reporting and business classification
- Business Types
 - Commercial rental properties
 - Home-based businesses
 - Transient businesses

Business License is not an Authorization to Operate



- Issuance of a business license does not constitute land use approval
- All businesses are responsible for ensuring they meet the Town's planning, zoning, and permitting requirements
- Town will work with businesses to reach compliance

Sample Business License Tax - Retroactive Three Years



Sample Business Type		Year 1	Year 2	Year 3	TOTAL
		2023	2024	2025	
Services		\$ 130.00	\$ 133.64	\$ 136.85	\$ 400.49
Professional		\$ 260.00	\$ 267.28	\$ 273.69	\$ 800.97
Contractor		\$ 291.20	\$ 299.35	\$ 306.54	\$ 897.09
Retail - Small Business	(Below \$50,000 Gross Receipt)	\$ 75.00	\$ 75.00	\$ 75.00	\$ 225.00
Retail - Medium Business	(Below \$250,000 Gross Receipt)	\$ 367.50	\$ 367.50	\$ 367.50	\$ 1,102.50
Retail - Maximum	(Over \$2 million Gross Receipt)	\$ 1,365.00	\$ 1,365.00	\$ 1,365.00	\$ 4,095.00

Sample Planning Fees - One Time

Potential Planning Fees	One Time
Change of Occupancy	\$215.46
Use of Occupancy	\$321.48
Home Occupancy Permit	\$196.56
Conditional Use Permit	\$12,105.36
Conditional Use Permit (DRC Approval)	\$7,854.26

Mitigation Strategies

- Publish clear guidance on the Town's website
- Partner with the Chamber of Commerce to amplify outreach
- Offer personalized support through HdL to assist businesses with compliance

TOT Audit

- HdL will review the TOT ordinance and the Administration Procedures
- Five Hotels

Fiscal Impact

- Sufficient funds in 2025–26 budget
- Additional revenue expected from:
 - Business license audits
 - TOT audits
 - Sales tax recovery
- Staff will monitor and report results

Recommendations

- **Authorize** the Town Manager to execute the Fourth Amendment with HdL
- **Approve** the resolution to waive late fee penalties for businesses undergoing audits

QUESTIONS
