



STAFF REPORT

SAUSALITO CITY COUNCIL

MEETING DATE: November 12, 2019

AGENDA TITLE: Business License Tax Equity Ordinance – Update and Discussion

LEAD DEPARTMENT: Administration

RECOMMENDED MOTION:

Adopt a motion of the City Council of the City of Sausalito that:

1. Receives and accepts the report on the Business License Tax Equity Ordinance.
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SUMMARY

During the November 2018 election, Sausalito voters adopted Measure M which approved the Business License Tax Equity Ordinance. This ordinance reduced the number of business license tax categories from 22 to 4, eliminated the exemptions to the business license tax for subcontractors and commercial property owners, adjusted the business license tax rates and delayed implementation of the new ordinance until July 1, 2019 (new businesses) and January 1, 2020 (existing businesses).

This report provides a brief history of the ordinance, the City's outreach program to new and existing businesses, results to date and a discussion of options for the Council to change the ordinance if desired.

BACKGROUND

A Business License Tax (BLT) is charged to anyone doing business in a City. It is a common tax that is used to fund City services throughout California with over 90% of cities in California (450 of the 482) levying a BLT. The BLT recognizes the link between City services and infrastructure and the use of these by local businesses.

The City of Sausalito established its Business License tax ordinance in 1968. Since that time, it was updated several times by action of the City Council. Over the years the Sausalito BLT Ordinance had become quite complex and needed simplification, streamlining and an update. There was also an interest in improving the ordinance's fairness by ending exemptions for subcontractors and commercial property owners so that all businesses were covered by the BLT.

The City's BLT services firm, hDL Companies, says that there are approximately 1,800 licensed firms in Sausalito, including vendors at the Sausalito Art & Wine Festival.

In June 2018, the City Council authorized the City Staff to proceed with three revenue measures that would address the City's projected budget shortfall in the future and maintain the current level of City services. These measures were an increase in Parking Rates (adopted by the City Council in July 2018) and two measures that required a majority approval by the voters – Measure L (an increase in the Transient Occupancy Tax also known as the "Hotel Tax") and Measure M (update and increase Business License Tax rates).

Measure M - Business License Tax Equity Measure

A study of the City's BLT Ordinance was prepared by hDL Companies. It recommended that the City's ordinance be streamlined and updated. This report and its recommendations were referred to the City Council Finance Committee. In July, the Finance Committee recommended placing Measure M, the Business License Tax Equity Measure on the November 2018 ballot.

The key provisions of the committee's recommendation, which were subsequently adopted by the City Council and placed on the ballot included:

1. Simplify and streamline the BLT Ordinance including a reduction in the number of business categories from 22 to 4
2. Changes to the BLT tax structure that included a 13% reduction in BLT Taxes charged to Retail and General Businesses and updates to other business rate categories
3. Eliminate exemptions in the BLT ordinance by Including Subcontractors and Commercial Property Owners in the Business License Tax Equity Ordinance.
4. Delaying implementation of the new BLT Ordinance until July 1, 2019 (for unlicensed businesses) and January 1, 2020 (for existing licensed businesses).

Educational Materials and Outreach Prior to Election

The City provided educational materials and outreach in the summer and fall of 2018. This included:

- Providing information on Measure M on the City web site
 - Articles in the Currents eNewsletter
 - The Business Manager met with the Chamber of Commerce and answered questions about the proposed measure from 5 businesses at a meeting on Measure M
 - The City offered to provide an estimate of BLT taxes for registered businesses by email and provided 7 estimates to local businesses from a mix of categories (retail, manufacturing, medical and dental, professional) that were requested during that period.
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Approval By Voters

The Business License Tax Equity Ordinance (Measure M) was approved by the voters in November 2018 with a 65% Yes vote. As noted above, the measure will be implemented starting in July 2019 for new businesses and then in January 2020 for existing businesses.

Information and Outreach for New Businesses (July 1, 2019)

In preparation for the new ordinance taking effect for new businesses, the City of Sausalito Website was updated to provide information on the new ordinance. It will include an update to Chapter 5.04 of the Sausalito Municipal Code (Business License Taxes), information on the new rates and categories, forms with the new rates and a Frequently Asked Questions (FAQs) document prepared by HdL (see **Attachment 1**). These updates were completed in June 2019, in advance of the July 1, 2019 ordinance effective date.

The results of this work have created a successful transition to the new BLT Ordinance. In the first two months of the program, 60 new businesses were registered. No complaints were received from these firms about the new BLT program.

The City is now 4 months into the new ordinance. To date, HdL reports that 190 new businesses have been registered and \$30,000 in BLT revenue has been collected. HdL has received no complaints about the new ordinance during the registration and collection of the BLT from these 190 firms.

Existing and Formerly Exempt Businesses (January 1, 2020)

The next step in the outreach process was to develop information for existing businesses and the formerly exempt businesses. These groups will be covered under the new BLT ordinance in January.

Existing Businesses

Earlier this month, renewal notices were mailed out to existing Sausalito businesses with a business license tax certificate (see **Attachment 2**). This mailing included information on the Measure M election in November 2018, the new rate categories and how the new BLT ordinance will affect how the BLT return is filed. It also assigned the business to one of the 4 new BLT rate categories in the new ordinance.

Subcontractors and Commercial Property Owners

These businesses received a special package in September or October 2019 indicating that the BLT Ordinance now applies to them. This will give them additional time to review the new ordinance and complete the BLT forms prior to the tax payment becoming due to January 1, 2020. A follow up letter was sent out at the beginning of this month reminding them of the January due date.

FINANCE COMMITTEE DISCUSSION & RECOMMENDATION

On November 7, 2019, the Finance Committee (Mayor Burns and Vice Mayor Cleveland-Knowles) reviewed a report on the Business License Tax Equity Ordinance. Questions were raised about whether the City Council should consider changes to the BLT Ordinance.

During this discussion it was noted that prior to the Council action in June 2018 to place the BLT Ordinance on the ballot, the Council received requests and comments that included:

1. Requests for exemptions from the new ordinance for businesses operated by Seniors and lower income residents.
2. Questions about the increased rates in the Services and Professionals category.
3. Comments from the City Attorney that the BLT rates in the new ordinance are maximums that can be lowered by a vote of the City Council.
4. The City Council also has the authority to add exemptions to the Business License Tax Equity Ordinance if they choose to do so.

The committee indicated that there may be some differences of opinion on whether these requests and comments would be addressed again after adoption of the new BLT Ordinance but prior to the effective date for existing business renewals. There was also a discussion about whether the rates for Services and Professionals might be lowered by the City Council.

With that in mind, the Finance Committee has referred this matter to the City Council. The referral includes an update on the BLT Ordinance for the Council and an opportunity for the Council to discuss whether they wish to lower some or all the BLT Ordinance rates and whether they wish to add exemptions into the Business License Tax Equity Ordinance.

RECOMMENDATIONS & NEXT STEPS

FISCAL IMPACT

The 2019-20 City Budget includes an increase of approximately \$900,000 in new revenue from the new BLT Ordinance. If the City Council elects to lower one or more rate categories or adds one or more exemptions to the ordinance, this would reduce BLT revenues to the General Fund. The City would also need to pay for the costs of issuing refunds to new and existing businesses that have already paid their BLT under the new ordinance.

Using the HdL estimates of licensed businesses and categories in Sausalito (see **Attachment 3**), a 10% BLT rate reduction in the Services and Professionals category would result in a revenue loss of approximately \$90,000 per year and an additional \$10,000 in one-time costs for BLT adjustments and rebates for a total revenue reduction of \$100,000 in the current fiscal year.

These potential BLT reductions and their impacts would need to be considered as part of the City's mid-year budget adjustments if the Council elected to adopt such changes.

STAFF RECOMMENDATION

Adopt a motion of the City Council of the City of Sausalito that:

1. Receives and accepts the report on the Business License Tax Equity Ordinance.

ALTERNATIVES

If the Council wishes to explore alternatives to the Staff Recommendation, it could:

1. Adopt the Staff Recommendation with modifications from the City Council.
2. Direct the Staff to develop options to add exemptions and change rates in the Business License Tax Equity Ordinance. (Staff estimates this could be completed for the December 10, 2019 City Council meeting).
3. Other action and direction by the City Council.

ATTACHMENTS

- Attachment 1 – Business License Tax Renewal - Introductory Cover Letter
- Attachment 2 – Business License Tax Equity Ordinance – FAQs
- Attachment 3 – Revenue Estimate – Business License Tax Equity Ordinance

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