



# Modifications to the Business License Tax

July 22, 2024



# Presentation Overview



- Background
  - Financial Sustainability
  - Policies Guiding Council Direction
  - Current Business License Tax (BLT)
  - Timeline Related to BLT Modernization
- Community Engagement and Priorities
- Recommended Approach to BLT Modernization
- Ad Hoc Committee Comments
- Proposed City Council Action
- Next Steps

# Questions for Council



- Does the City Council have questions regarding the City's financial trends or potential reductions in City services?
- Does the City Council have questions regarding feedback received through community engagement?
- Does the City Council have questions regarding the proposed modernization of the Business License Tax?
- Does the City Council support asking voters to consider the proposal on the November 2024 election?

# Background



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# Financial Sustainability



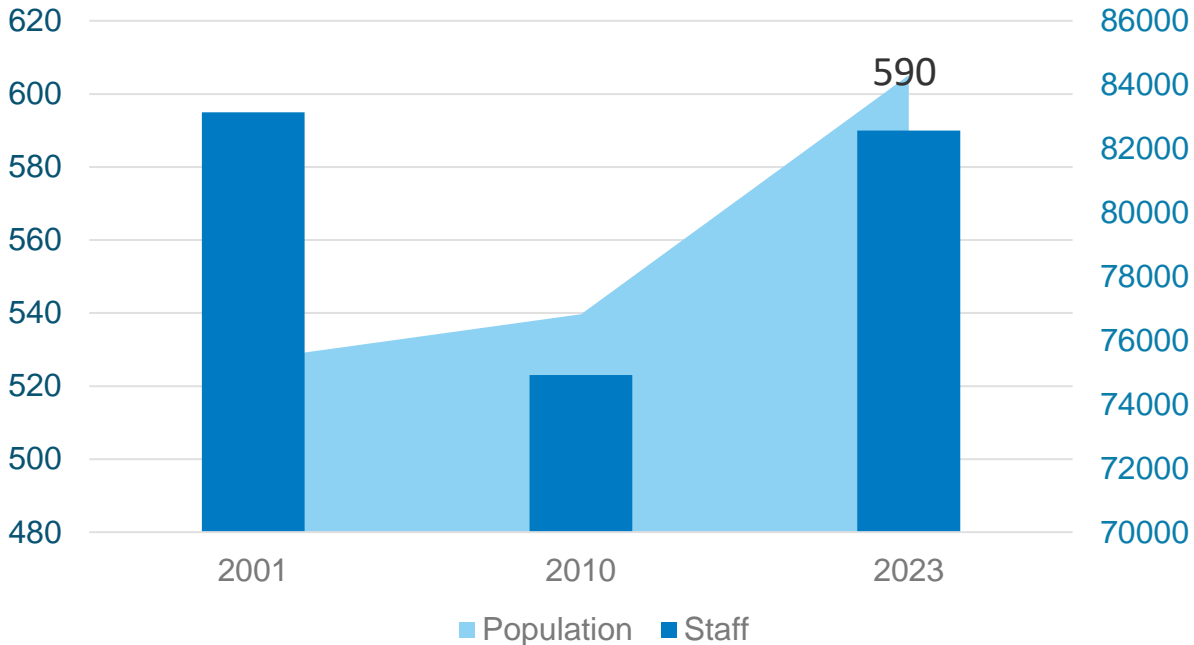
## Belt Tightening Throughout the City

- Keeping staffing levels lean
- Using volunteers
- Obtaining sponsorship support for programs
- Partnering with community organizations to deliver services
- Working with bargaining units to contain employment costs
- Stretching investments with aging equipment and affordable choices
- Seeking and securing grant funding
- Strengthening revenues through economic development
- Continually increasing efficiencies and cutting waste

# Financial Sustainability



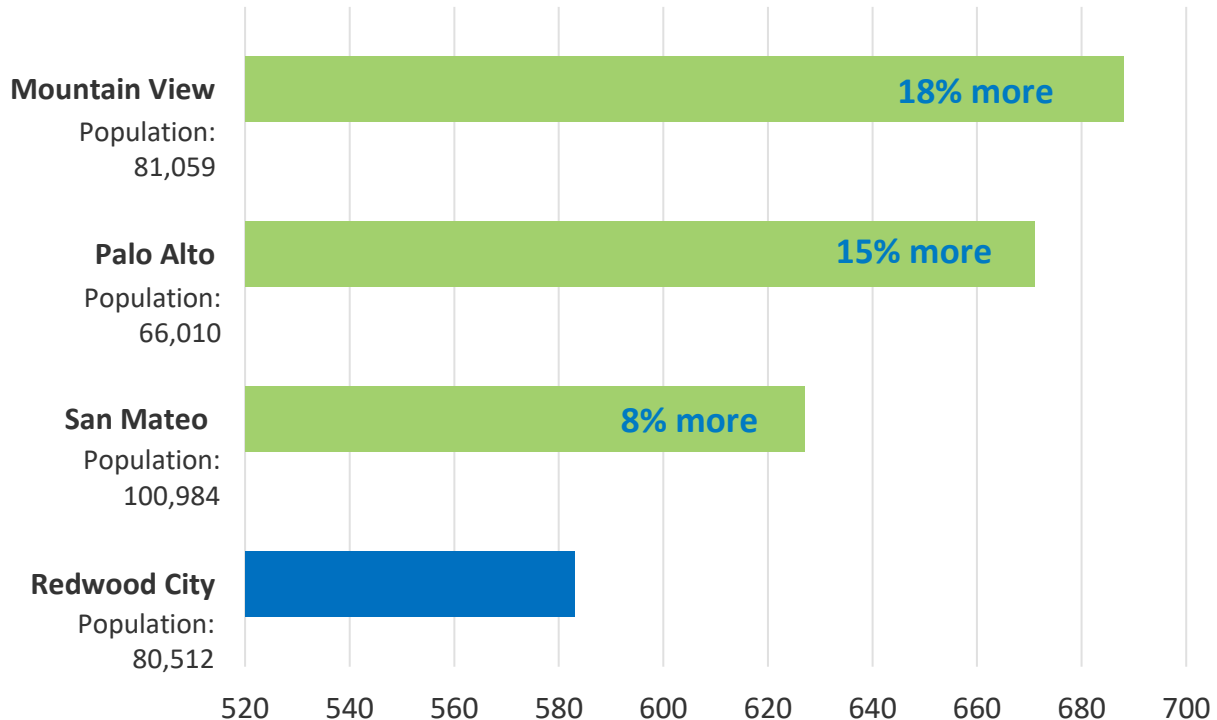
Over the past twenty years, City staffing has not kept pace with population growth



# Financial Sustainability



## Staffing Levels for Core Services Comparison by City



# Financial Sustainability



## Seeking and Security Grant Funding

### Pandemic Assistance

- > **\$1 million** for utility bill forgiveness for low-income residents
- > **\$4.3 million** in emergency rental assistance

### Public Safety

- **\$3.6 million** for 3 years of 6 additional firefighters
- **\$2.9 million** to address homelessness

### Critical Infrastructure

- **\$7 million** for storm water flooding prevention
- >**\$225 million** to improve the 101/84 interchange

# Financial Sustainability



## Economic Development Efforts

### Proactive Planning for Community-Informed Development

- Transit District, Updated Downtown Precise Plan
- Downtown and Central Redwood City Plan launch early 2025

### Retail Cannabis

- \$930,000 expected this year; \$1.2 million next year

### 2024 Economic and Workforce Development Workplan

- Customer service, business resources, sustainable jobs, billboards

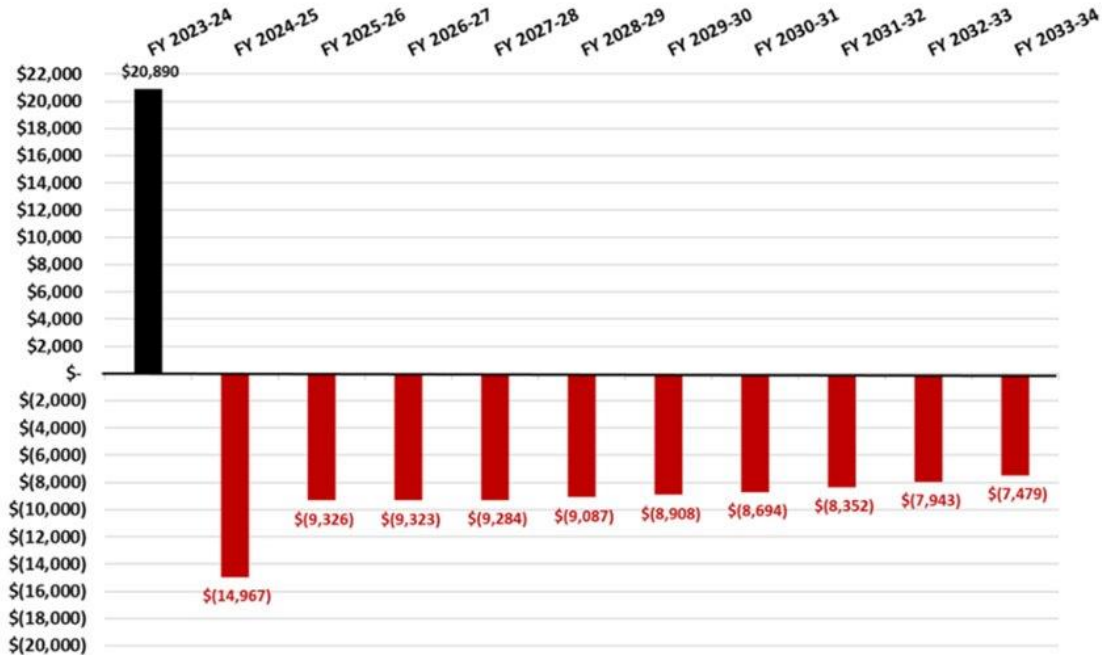
### Constructive Partnerships with Business Groups

- Downtown Business Group, Chamber, SAMCEDA, RCIA

# Financial Sustainability



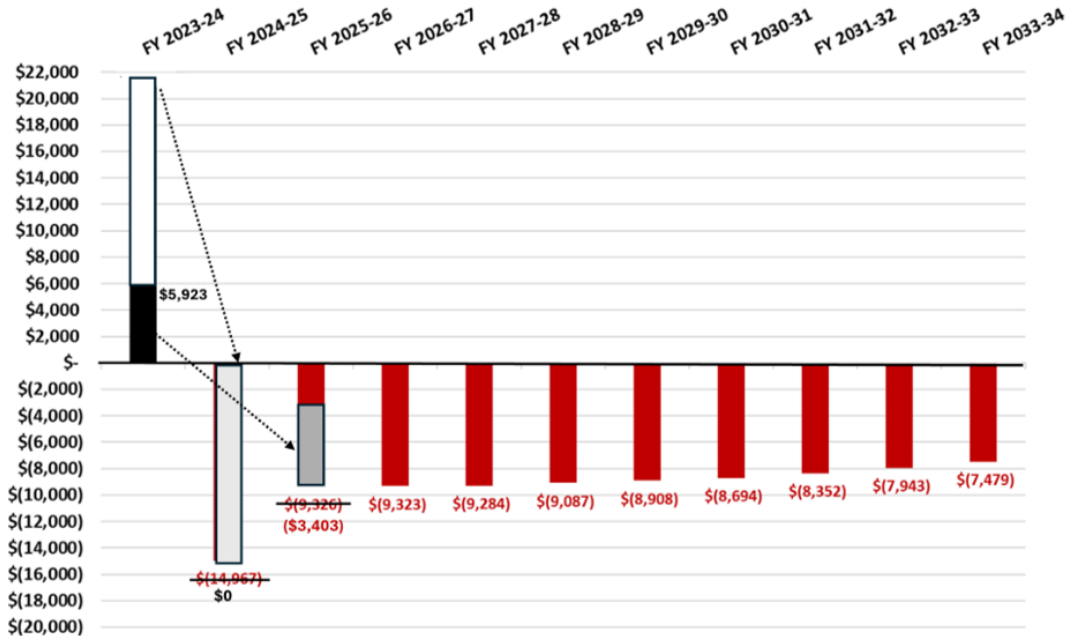
May 2024  
Projected General Fund Net Operating Position  
(in thousands)



# Financial Sustainability



May 2024  
 Projected General Fund Net Operating Position  
 (in thousands)



# Financial Sustainability



## Possible Reductions without New Revenues

- Disband **Downtown Police Unit**
- Reduce **street crimes suppression and traffic enforcement**
- **Reduce parking enforcement** services
- **Longer Fire Department response times** to several portions of the city
- **Close the Schaberg Branch Library** and **reduce hours** at other libraries
- Reduce **youth and teen recreation programs**
- Reduce **services at the Senior Center**
- Reduce capacity to **support affordable housing initiatives**
- **Eliminate 4<sup>th</sup> of July Fireworks event** and other community events
- **Slower responses to resident inquiries**
- Reduce community input, **ending the biannual community survey**
- Reduce **code enforcement services**
- **Delay permits** for building, planning, engineering, and transportation services funded by General Fund
- **Close Red Morton Community Center on weekends**, and other centers two nights a week

# Financial Sustainability



## Jurisdiction

## Potential Revenue Measure

Belmont

Modernization of Business License Tax (BLT) from per employee rate to a gross receipts structure.

Colma

Sales tax measure.

Foster City

Modernization of BLT including: 1) updating the gross receipts rate per \$1,000 gross receipts to a tiered rate, 2) add CPI to min and max tax, and 3) Increase maximum payment or cap to \$250K

Half Moon Bay

Sales tax measure.

Millbrae

Fire assessment for property owners.

South San Francisco

Update of BLT: 1) increase of per employee and residential rates, and 2) increase in maximum payment or cap.

# Policies Guiding Council Direction



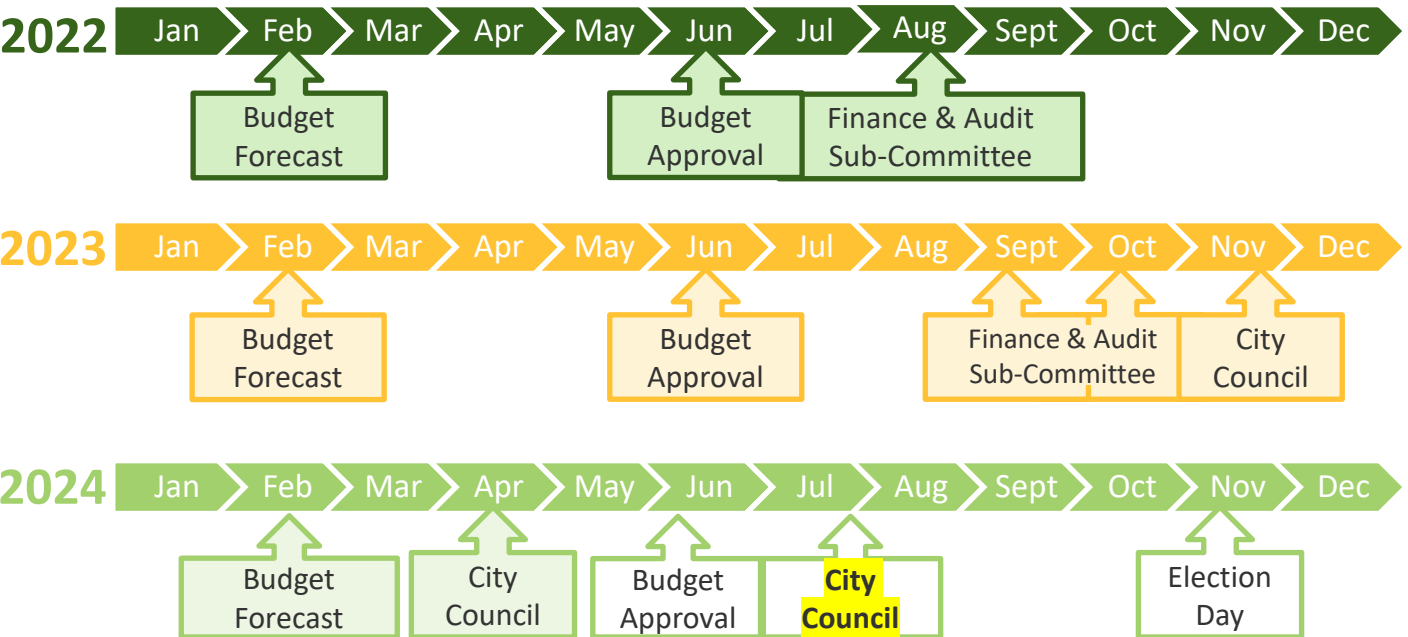
- **Equity:** *Redwood City will put equity first, urging a collective restart so that policies serve the entire community.*
- **Economic Vitality:** *Support Redwood City's economic prosperity by attracting, retaining, and expanding a diverse mix of businesses that meet community needs.*
- **Housing:** *Meet our unique community housing needs for people at all income levels.*

# Policies Guiding Council Direction



- **Child care:** *Increase the number and affordability of child care spaces*
- **Communication and Community Building:** *Build community through information sharing, transparency, dialogue, and community engagement.*
- **Excellence in Government Operations:** *Uphold the highest standards of professionalism within City Operations, and encourage fiscal responsibility, innovation, and strategic decision making.*

# Timeline BLT Update



# Overview of Current BLT



## KEY ELEMENTS OF EXISTING BUSINESS LICENSE TAX

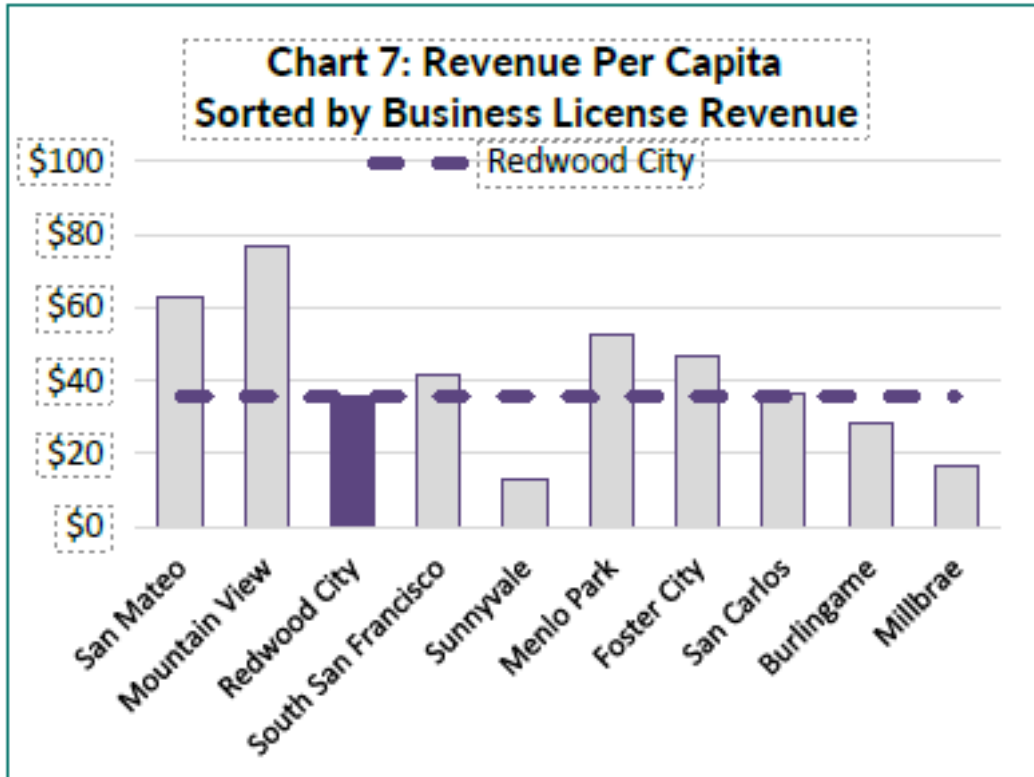
Key Element	Detail
Registration Fee	\$86
Additional tax per full-time employee	\$57
Additional tax per part-time employee	\$31
Residential rental units	\$31 per units (4+ units)
Commercial rental property	\$31 per 1,000 square feet (sq. ft.)
Maximum Tax (cap)	\$7,121 for FY 2024/2025

### Exemptions

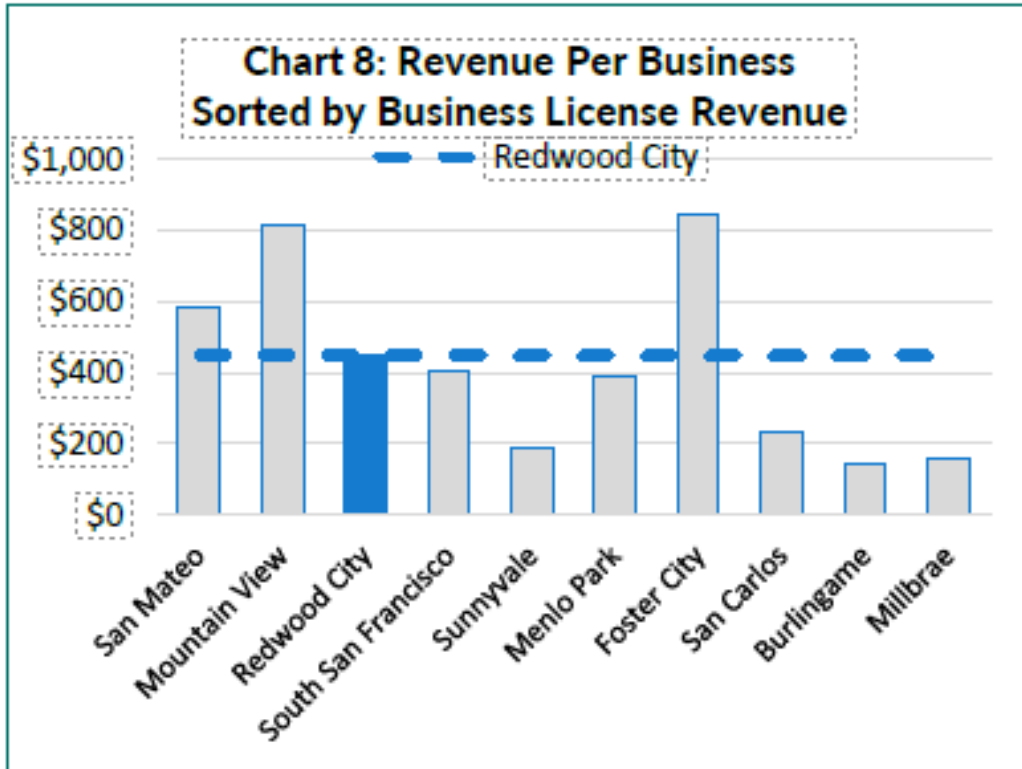
- Non-profit & governmental organizations
- Cannabis retailers
- Deed-restricted affordable housing
- Home based childcare providers

*Currently Yields \$2.8M in Annual Revenue*

# Overview of Current BLT



# Overview of Current BLT

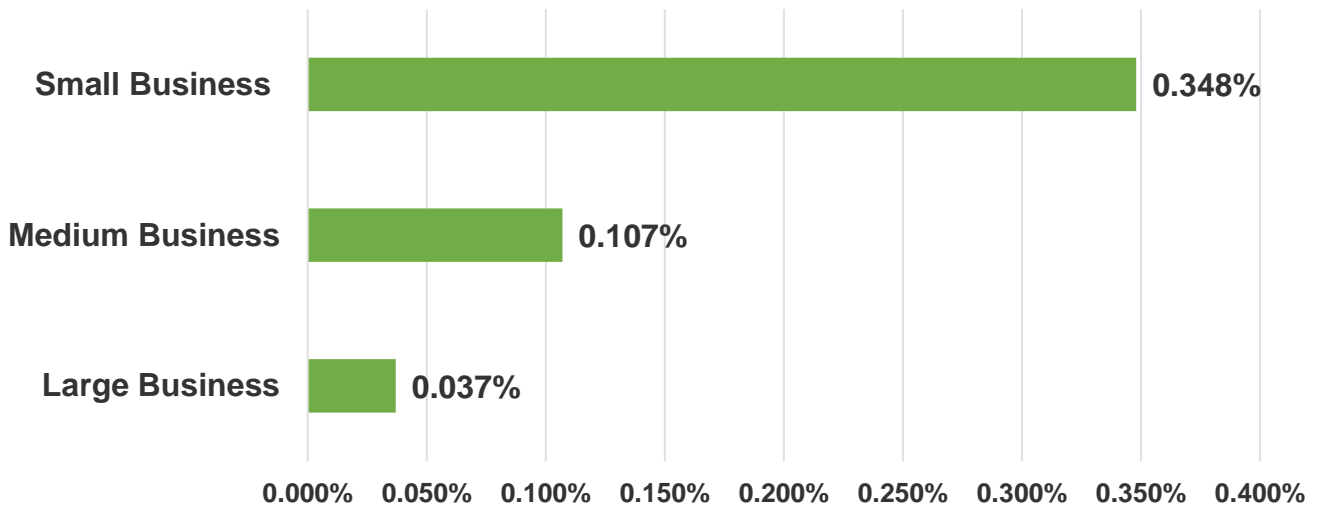


# Overview of Current BLT



## Disproportionate Impact on Small Businesses

Estimated Effective Tax Rates under the Current Model



# Initial Approach Studied



Categories	Minimum Rate	Tax Rate 3A	Tax Rate 3B
CONTRACTOR	\$25 (GR less than \$25,000)	0.002 X Gross	0.0025 X Gross
GENERAL COMMERCE/RETAIL		0.001 X Gross	0.0015 X Gross
RENTAL (COMMERCIAL & RESIDENTIAL)		0.003 X Gross	0.004 X Gross
SERVICE		0.002 X Gross	0.0025 X Gross
PROFESSIONAL		0.003 X Gross	0.004 X Gross

# Community Engagement



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# Community Engagement



## Nov-Dec 2023

- San Mateo County Association of Realtors (SAMCAR)
- California Apartment Association (CAA)
- Chamber San Mateo County (Chamber)
- San Mateo County Economic Development Association (SAMCEDA)

## Jan-March 2024

- Bi-Annual Community Satisfaction Survey
- Public Opinion Surveys
- City Council Discussion

## Apr-June 2024

- Small Business Roundtable
- Housing Providers
- Residential/Commercial Brokers
- Car Dealerships
- Affordable Housing
- Advisory BCC's, Neighborhood Association Leaders, Former City Council
- Large Businesses:(Tech, Life Science, Retail, Prof. Services, Property Owner)
- Port of Redwood City
- Community Collaborative for Children's Success
- Library, Parks, & Arts Groups
- Fun after 50 (Seniors)

# Community Engagement



## Maintaining City Services



Fix potholes & repair streets and sidewalks



Reduce flooding, water pollution, and provide green maintenance



Maintain number of on-duty firefighters, paramedics, & police officers



Maintain 911 emergency response times



Continue afterschool & recreation programs for children

# Community Engagement



Special General Fund Allocation for Capital Needs	Total
Roadway Pavement Management Program and Traffic Signal Replacement	\$2,300,000
Americans with Disabilities Act (ADA) Curb Ramp Program	\$800,000
Sidewalk Inspection and Repair Program	\$100,000
Stormwater/Flood Protection/Redwood Shores Levee/Lagoon	\$800,000
City Facilities Maintenance (roof repair, HVAC replacement)	\$1,150,000
Security Camera Program	\$800,000
Hoover Park and Parks Maintenance Projects	\$550,000
Broadway Pedestrian Mall	\$200,000
Contingency	\$400,000
<b>TOTAL</b>	<b>\$7,100,000</b>

# Community Engagement



Values City  
services



Businesses **willing** to  
support to avoid serve  
reductions



Concern about  
**complicated gross  
receipts** model



Concern about rising  
**cost of gross  
receipts** model



Desire for **certainty**  
(**cap** or maximum  
payment)



**Small businesses**  
currently  
**overburdened**

# Recommended Approach



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# Recommended Approach



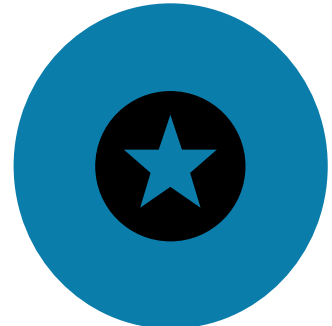
Structural budget deficit persists. Researched potential revenue options.



Research of BLT update options. Considered gross receipts model.



Extensive community engagement & stakeholder feedback. Ad Hoc committee discussion.



New proposed approach to updating Redwood City BLT.

# Recommended Approach



Category	Registration Fee	# of Employees	Per Employee Rate
Commercial/Retail	\$90	1-3	\$10
	\$90	4-10	\$50
	\$90	11+	\$80
Contractors	\$90	NA	\$150
Services	\$90	NA	\$130
Professional Services	\$90	First 3 Employees	\$175
	\$90	Employees 4-10	\$200
	\$90	Employees 11+	\$250
Rental Residential	\$90	NA	\$31 per unit
Rental Commercial	\$90	NA	\$75 per 1,000 SF
Maximum Payment	\$500,000	NA	NA

# Recommended Approach



## Key attributes:

- Support childcare by exempting all childcare businesses
- Support housing by maintaining current fee for landlords
- Supports housing by continuing exemption for deed-restricted housing
- Ensure tax keeps pace with inflation with annual increases
- \$7.7M net new revenue: helps maintain services but does not put full burden of deficit –\$9.3M – on business tax
- Annual report to Council on tax/business trends
- Council has the ability to reduce registration rate or per-employee rate (cannot increase rates)

# Recommended Approach



## Comparisons to Neighboring Cities

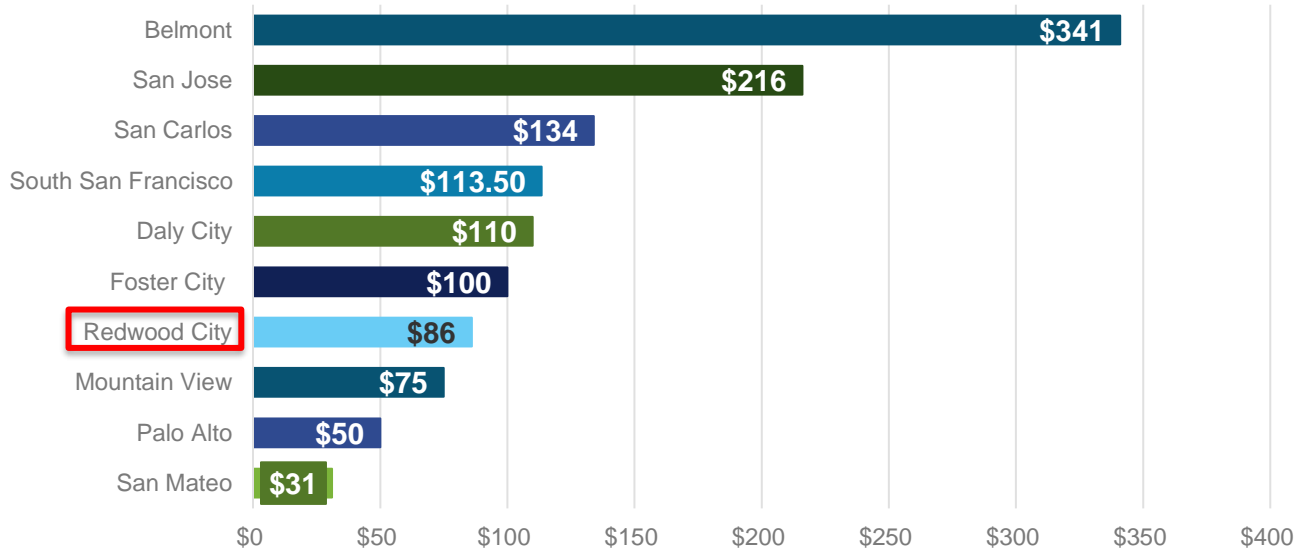
- Annual Registration Fees
- Caps/maximum payments
- Commercial property owners who lease properties
- Large Professional Service companies/firms

# Recommended Approach



- Registration Fee currently low to comparable.

## BUSINESS LICENSE TAX REGISTRATION FEE BY JURISDICTION - CURRENT

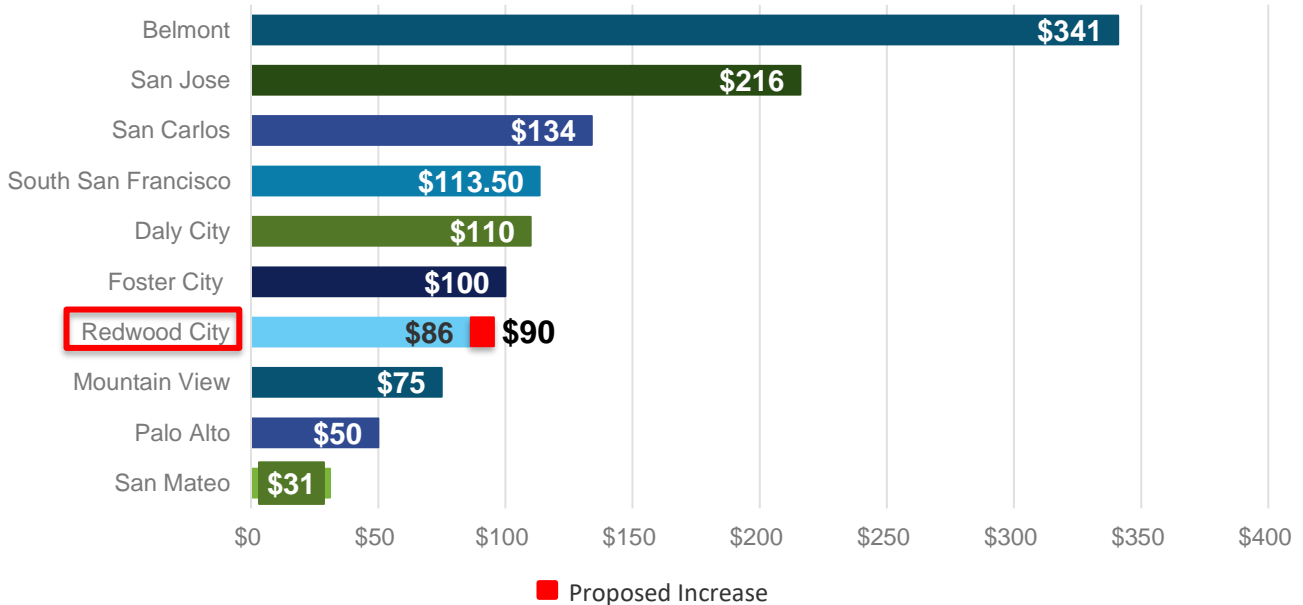


# Recommended Approach



- Remains competitive under proposal

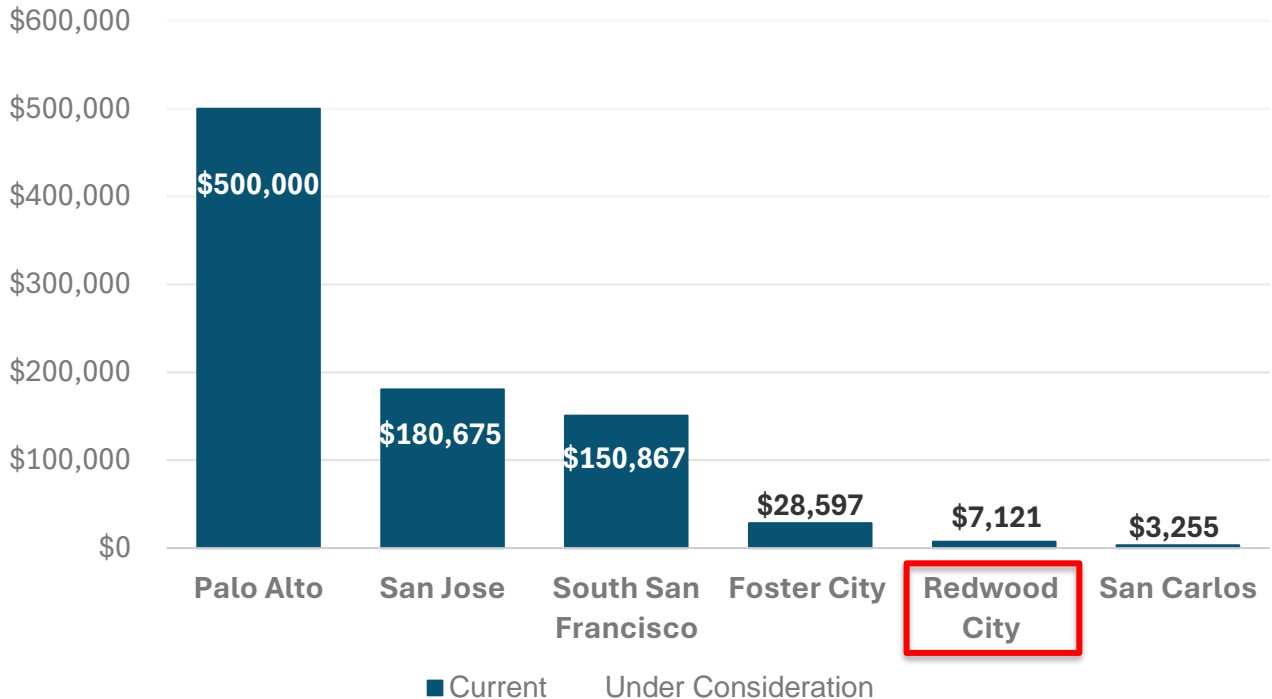
**BUSINESS LICENSE TAX REGISTRATION FEE BY JURISDICTION - PROPOSED**



# Recommended Approach



## BUSINESS LICENSE TAX CAP VALUE PER JURISDICTION - PROPOSED



# Recommended Approach



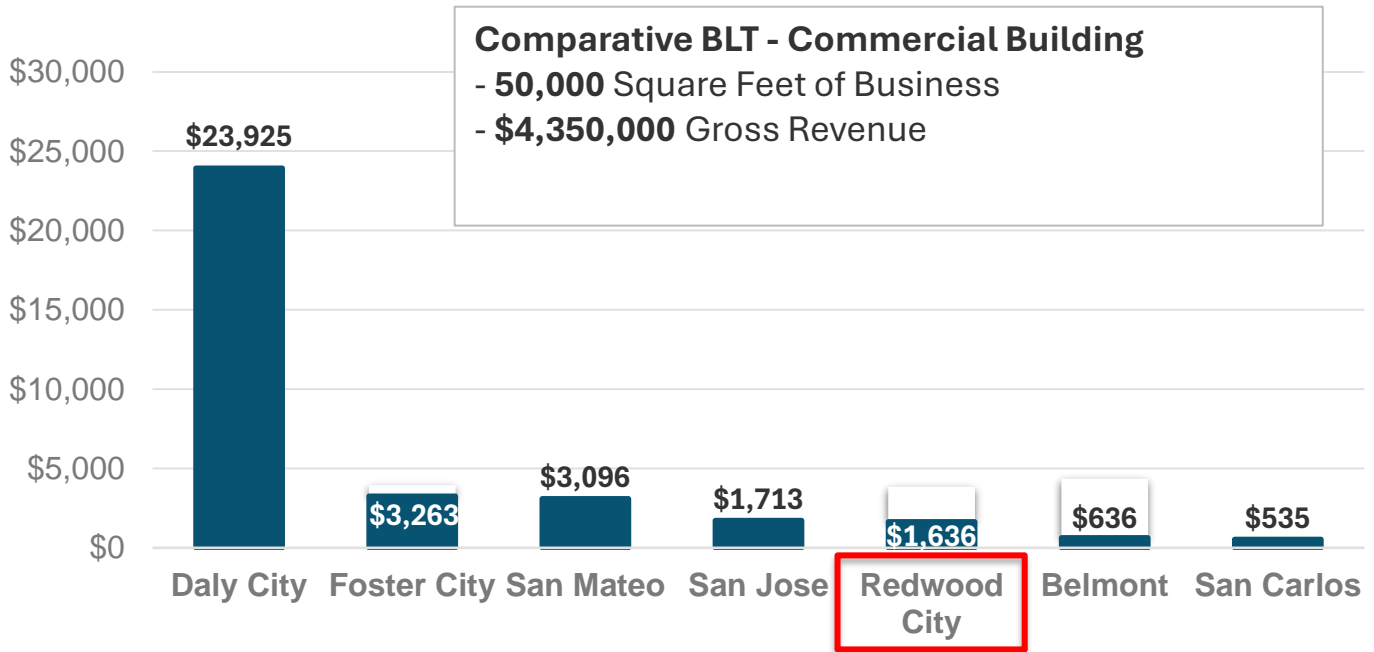
## BUSINESS LICENSE TAX CAP VALUE PER JURISDICTION - PROPOSED



# Recommended Approach



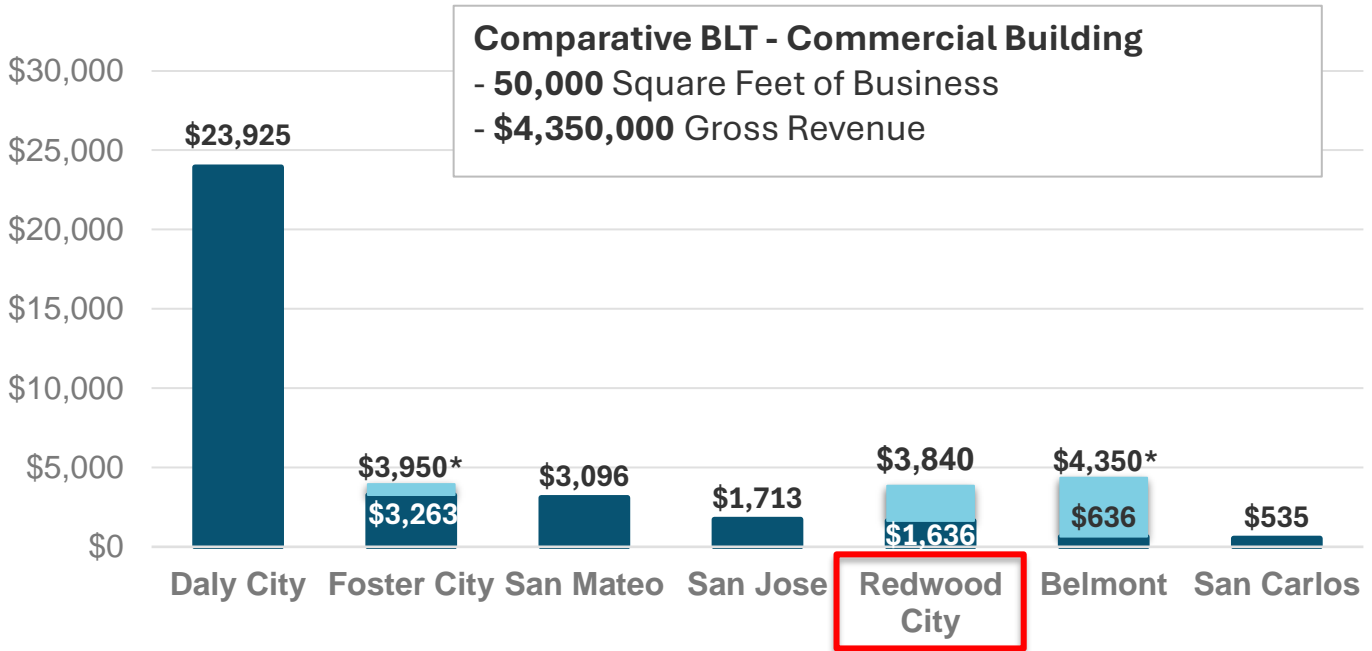
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# Recommended Approach



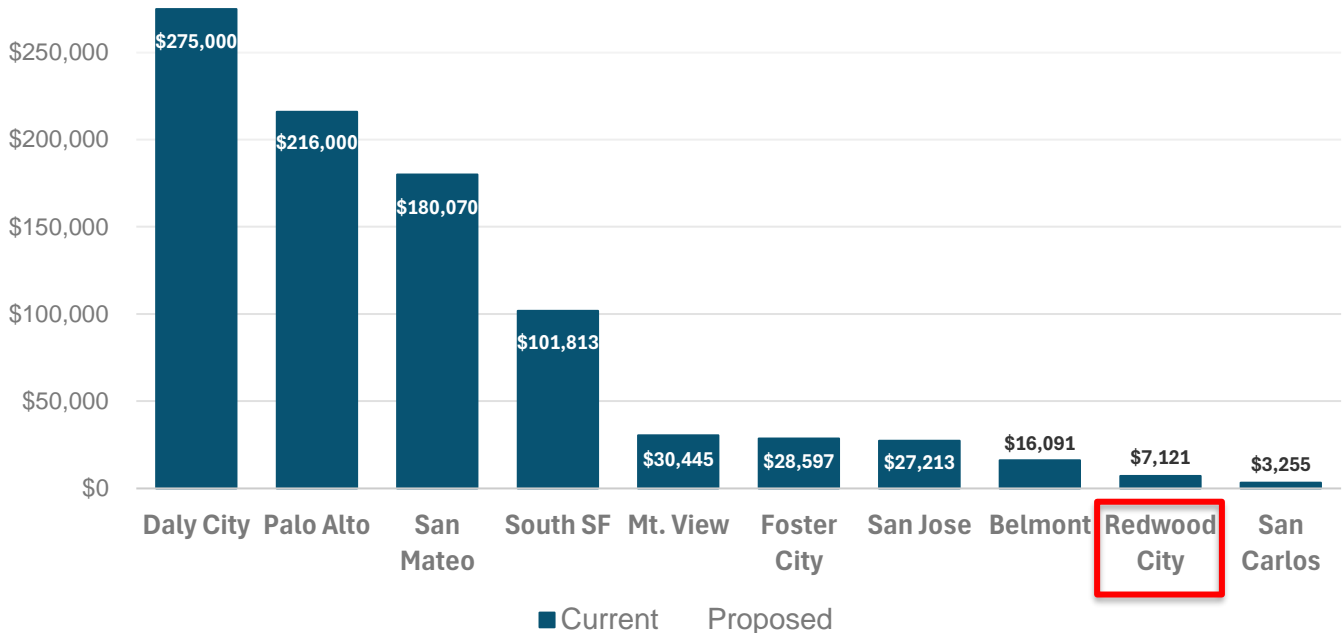
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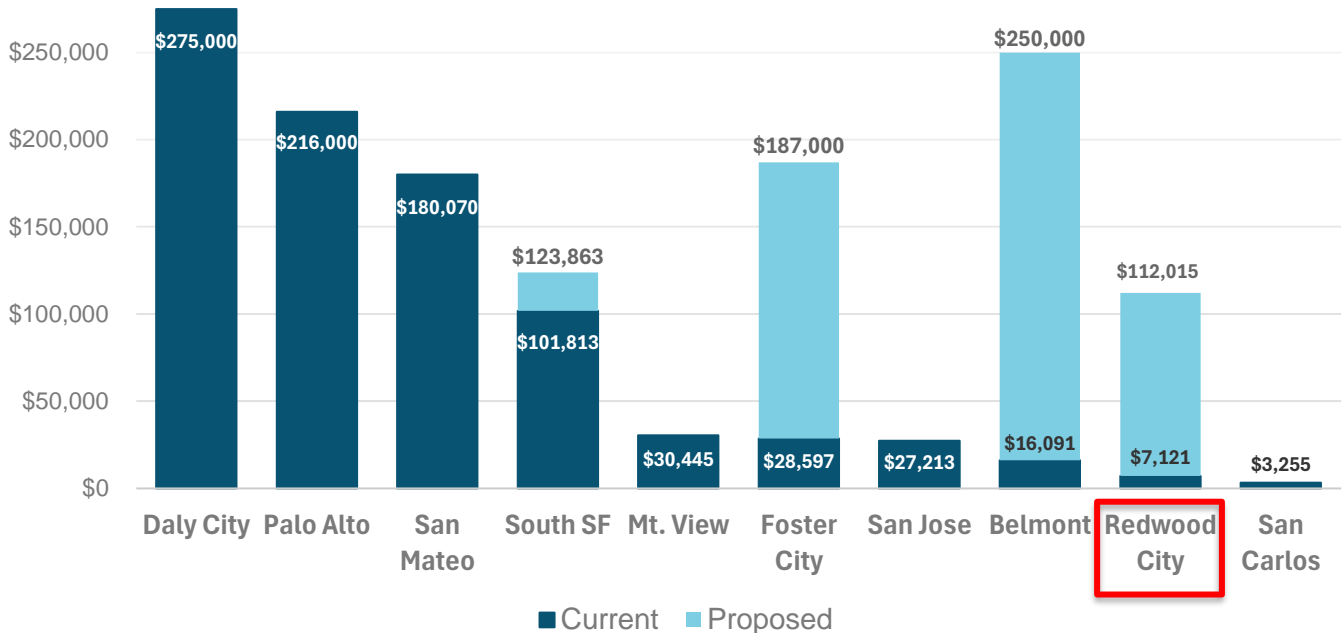
## BUSINESS LICENSE TAX LARGE PROFESSIONAL SERVICES CATEGORY – MODEL – CURRENT STRUCTURE



# Recommended Approach



## BUSINESS LICENSE TAX LARGE PROFESSIONAL SERVICES CATEGORY – MODEL – PROPOSED STRUCTURE



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# Proposed City Council Action



The City Council Business License Tax Ad Hoc Committee recommends that the City Council take the following action:

- Adopt a resolution calling for an election to be consolidated with the General Municipal Election and Statewide General Election on November 5, 2024, and submitting to the voters at the election a measure modernizing categories of business subject to the City's Business License Tax and increasing the business license tax rate. (Requires 5/7 vote)

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