



STAFF REPORT

To the Honorable Mayor and City Council
From the City Manager

DATE: July 22, 2024

SUBJECT

Ballot measure to modernize the City's Business License Tax to sustain essential City services, subject to voter approval

RECOMMENDATION

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 that election a measure modernizing categories of businesses subject to the City's Business License Tax and increasing the business license tax rate. (Requires 5/7 vote)

STRATEGIC PLAN GUIDING PRINCIPLE

Economic Vitality
Excellence in Governance Operations
Public Safety
Children and Youth

BACKGROUND

Redwood City's current business license structure is old and outdated. Small businesses are paying much higher effective rates than big businesses. Following months of engagement with business owners and leaders, community members, and residents, the City seeks to provide relief for our small business owners by asking voters to consider a business license tax modernization to ensure that large businesses pay their fair share for general City services. Such a modernization would also allow the City to maintain general City services at risk due to lower-than-expected revenue increases.

Like many California and Peninsula communities, the economic fallout from the COVID-19 pandemic has had lasting effects, making it difficult to support existing services. Without increased revenue, deep budget reductions will be required. These reductions would degrade City services, including public safety, street and sidewalk maintenance, and flood control. Recognizing these financial trends, from August 2022 to October 2023 the City Council's Finance and Audit Sub-Committee (FAC) studied seven options for increasing revenue in order to sustain City services. Only two of the studied approaches would significantly support City services: 1) modernizing the City's Business License Tax (BLT), or 2) adopting a local Property Transfer Tax.

After polling likely voters and conducting initial outreach to stakeholders, on April 1, 2024, the City Council directed staff to: cease consideration of a local Real Property Transfer Tax; further analyze the modernization of the City's BLT to a gross receipts model; and conduct extensive outreach to members of the business community and other stakeholders. Further, the City Council directed staff to develop a model that would both increase revenue for City services and reduce the regressive nature of the current tax structure so that all sectors of the business community pay a fair share toward maintaining services.

The City of Redwood City (City) first adopted a Business License Tax (BLT) in 1911. The current tax structure, adopted in 1967, is regressive, with smaller businesses paying a proportionately higher tax than larger businesses. A complete history of updates and modifications to the BLT is provided in Attachment B.

Based on analysis and extensive stakeholder engagement, the City Council's Business License Tax Ad Hoc Committee (Councilmembers Aguirre, Howard and Sturken) proposes revisions to the BLT that, if approved by voters, are estimated to generate net new revenue to the City's General Fund of approximately \$7.7 million annually. Rather than the gross receipts-based model, the revisions would retain the City's current approach of charging businesses based on the number of employees in Redwood City rather than on their gross receipts in Redwood City. The progressive fee schedule would increase tax rates for larger businesses on a per employee basis, offer reduced rates for smaller businesses, and significantly increase the maximum payment or "cap." These actions reduce the disproportionate burden on small businesses compared to medium and larger businesses. Additionally, the proposed revisions are expected to avoid business displacement as key features align with business tax obligations in other nearby communities.

Finally, the proposed modifications would generate additional revenue to sustain necessary City services, including public safety, parks and libraries, and would provide staff needed to advance important infrastructure projects such as maintaining and improving City streets and roads, reducing flooding, and green stormwater management.

ANALYSIS

This report provides an extensive examination in the following overarching categories:

- 1) The City's Financial Challenge;
- 2) Research of Potential Solutions to Sustain Services;
- 3) Overview of the Current Redwood City BLT;
- 4) Comparisons to Nearby Jurisdictions;

- 5) Community Outreach and Feedback from Stakeholders, Residents, Community Groups, and Businesses; and
- 6) Proposed Approach to Comply with City Council Direction to Modernize the Redwood City BLT.

1) The City's Financial Challenge

Like many cities in the region and state, Redwood City is experiencing rising costs for providing services that have outpaced revenue growth. For the past two years, the City has braced for anticipated deficits in the City's General Fund operating budget, primarily due to lost revenues associated with the pandemic (\$82.8 million), loss of access to Federal and State one-time funding availed to public agencies during the pandemic, and increased labor costs.

The City has consistently taken intentional, proactive, and strategic steps to ensure its long-term fiscal sustainability. In an effort to align revenues and costs associated with City services, the City has implemented a variety of actions, including the following:

- Supported economic growth through new development, the updated Downtown Precise Plan, and the forthcoming process to update the Central and Downtown Redwood City Plan;
- Established a Cannabis Retail Ordinance, generating a new revenue stream to support City services;
- Contained costs, including maintaining very lean staffing levels;
- Obtained voter support for a local sales tax;
- Updated cost recovery fees to ensure that general revenues are not used for special services;
- Updated development impact fees while also considering total fee burden on new development;
- Updated service charges for services provided to other entities, including fleet services and Fire and Emergency Medical Services;
- Used volunteers in multiple City operations;
- Secured approximately \$161 million in grants over the past two years to advance infrastructure, affordable housing, social programs, and other initiatives;
- Adopted the Two-Year Economic and Workforce Development Plan; and
- Conducted studies of services to determine efficiencies and staffing levels for various City functions, including Police, Fire, and Community Development and Transportation.

Despite these efforts, the current General Fund operating budget forecast predicts annual deficits of approximately \$9.3 million, beginning in Fiscal Year 2025-2026.¹ During the presentation of the FY 2024-25 Recommended Budget, the City Council received information about potential service reductions that

¹ The FY 2024-2025 Budget is sustained by using nearly \$15 million in once-time fund balance.

could be required beginning in FY 2025-2026 if additional revenues are not received. *While the following reductions are not proposed at this time, reducing the budget by \$7.7 million would require all of the following actions:*

- Police Department
 - Disbanding the Downtown Services Unit and reassign officers to patrol, and
 - Reducing work of the Street Crimes Suppression Team, and
 - Reducing work on the Traffic Enforcement Unit, and
 - Reducing parking enforcement services
- Fire Department
 - Longer response times to several portions of the city
- Parks, Recreation and Community Services
 - Reducing after-school and recreation youth and teen programs and services at the Senior Center, and
 - Closing the Red Morton Community Center on weekends and other community centers to two nights a week, and
 - Elimination of the 4th of July Fireworks event and other community events
- Library Services
 - Closing the Schaberg Branch Library, and
 - Reducing programming and hours of operation at other libraries by 15%
- Community Development Services
 - Reduced code enforcement services
 - Delayed permit review and approval for building, planning, engineering, and transportation services that are funded by the General Fund
- Reduced administrative, policy support and risk management capacity
 - Slower support for City Council response to residents and public records requests, and
 - Delayed human resources hiring support and benefits administration, and
 - Reduced community input through the biannual community survey, and
 - Reduced street tree trimming capacity, and
 - Limited capacity to pursue additional grant funding and manage existing grants, and
 - Reduced capacity to support affordable housing initiatives

Key infrastructure and maintenance projects could also be delayed by reduced staffing and reduced General Fund resources available to support capital needs.

2) Research of Potential Solutions to Sustain Services

To enable the City to continue providing existing services, in August 2022, the City’s Finance and Audit Sub-Committee analyzed a broad range of revenue enhancement options, including consideration of potential changes that would require approval via a ballot measure, such as alterations or increases to existing taxes or the potential addition of new taxes. The following revenue options were studied:

TABLE 1

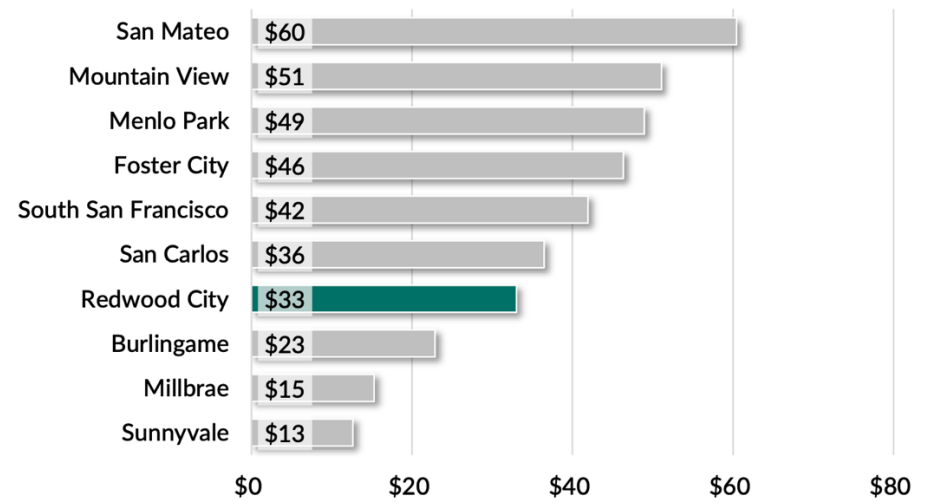
REVENUE OPTIONS STUDIED BY FINANCE & AUDIT SUBCOMMITTEE		
Potential Source of Revenue	Consulting Firm	Report Presentation Date
Utility Users’ Tax (UUT)	Avenu Insights/MuniServices	FAC: September 18, 2023
Transient Occupancy Tax (TOT)	HdL Companies	FAC: September 18, 2023
Business License Tax	HdL Companies	FAC: September 18, 2023
Municipal Fees Update	Matrix Consulting	City Council: October 9, 2023
Sales and Use Tax	DTA	FAC: October 11, 2023
Property-related Taxes	DTA	FAC: October 11, 2023
Special Taxes	DTA	FAC: October 11, 2023

Ultimately, the analysis concluded that only a local Real Property Transfer Tax or a modified Business License Tax would generate meaningful revenue, allowing the City to avoid service reductions. As shown in Attachment C, several other cities in San Mateo County are also considering ballot measures to increase revenue or change the model for their Business License Tax to a gross-receipts basis.

City Council Direction and Feedback

On [November 27, 2023](#), staff presented a comprehensive overview of all potential revenue options. The analysis of the City’s current BLT structure included comparisons to nearby communities and found that Redwood City generally receives lower BLT revenue compared to several communities. Chart 1 compares the total business tax revenue generated per capita for Redwood City and nearby cities.

CHART 1: Estimated Business Tax Revenue Per Capita



The City Council directed staff to investigate two revenue options further: 1) modifying the City’s BLT to a gross receipts model, and 2) establishing a local Real Property Transfer Tax. This included polling likely voters on these two revenue options and conducting community and stakeholder engagement.

On [April 1, 2024](#), staff presented additional information regarding each option and the results of public opinion research intended to understand community priorities for City services and to gauge voters' interest in either potential approach to further revenue generation. Upon review of this additional context and further discussion, the City Council decided to discontinue pursuit of the Real Property Transfer Tax.

Based on feedback from the Finance and Audit Sub-Committee, staff presented two options for adopting a Business License Tax based on gross receipts generated in Redwood City, as shown in Table 2 below:

TABLE 2

OPTIONS FOR GROSS RECEIPTS-BASED BUSINESS LICENSE TAX MODELS		
Category	Tax Rate (Model 3A)	Tax Rate (Model 3B)
Less than \$25K in gross receipts	Flat payment of \$25	
Contractor	.002 X Gross	.0025 x Gross
General Commerce/Retail	.001 X Gross	.0015 x Gross
Service	.002 X Gross	.0025 x Gross
Professional Services	.003 X Gross	.004 x Gross
Rental Property (Residential/Commercial)	.003 X Gross	.004 x Gross
No cap on payments		

Following a robust discussion, on a 6-1 vote (Gee dissenting) the City Council directed staff to further research the feasibility of asking voters to consider changing the BLT to a gross receipts model similar to Model 3A, the lower of the two models. During the discussion, the City Council focused on generating funds to sustain City services and increasing equity within the tax structure. The City Council also directed

staff to conduct comprehensive outreach to members of the business community and other stakeholders to understand the potential impact of this model.

In May 2024, Mayor Gee appointed a Business License Tax Ad Hoc Committee (Councilmembers Aguirre, Howard, and Sturken) to serve in an advisory role to staff in assessing the viability of a potential modification to the BLT. The Ad Hoc Committee has met five times since its formation, receiving community input.

3) Overview of the Current Business License Tax

The existing Redwood City BLT was adopted in 1967 as a combination of a base tax rate and additional fees determined by the total number of employees. The most recent update to the Redwood City BLT was approved by voters in 2011, raising the annual base tax rate by \$21 per business and the per employee rate by \$15 per employee, adjusted annually by the Consumer Price Index (CPI). On average, the BLT generates \$2.8 million in annual revenue. It is credited to the General Fund to fund core City services such as public safety; parks, recreation and community services; and library services.

Table 3 below highlights the key elements of the existing Redwood City BLT with rates effective as of July 1, 2024:

TABLE 3

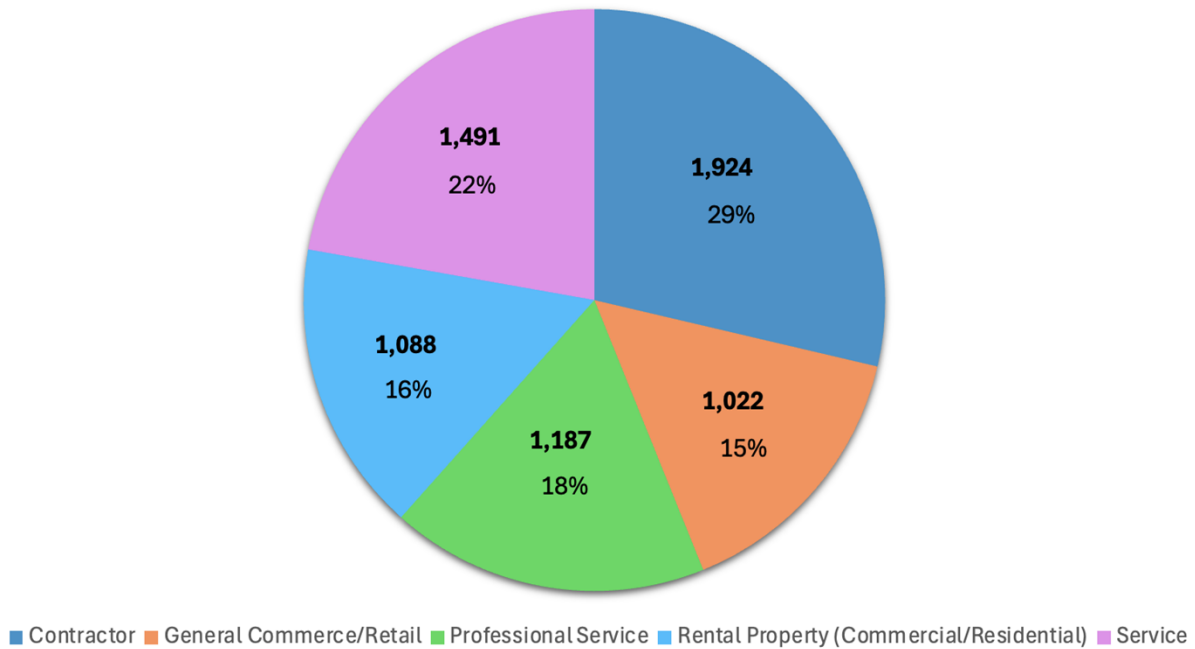
KEY ELEMENTS OF EXISTING BUSINESS LICENSE TAX	
Key Element	Detail
Registration Fee	\$86
Additional tax per full-time employee	\$57
Additional tax per part-time employee	\$31
Residential rental units	\$31 per unit in excess of three units
Commercial rental property	\$31 per 1,000 square feet (sq. ft.)
Maximum Tax (cap)	\$7,121 for FY 2024/2025
Exemptions	<ul style="list-style-type: none"> • Non-profit and governmental organizations • Cannabis retailers² • Owners of residential real estate who own three or fewer units • Deed-restricted affordable housing • Home based childcare providers

Currently, 6,712 businesses have received businesses licenses, in the categories or types of businesses illustrated in Chart 2 below. Some businesses file multiple licenses for the same location; staff estimates there are approximately 5,700 unique business.

² Cannabis retailers are subject to a 4% gross receipts tax as part of the City’s Cannabis Ordinance.

CHART 2: Redwood City Business Licenses by Business Category

**REDWOOD CITY BUSINESS LICENSES ON FILE
BY BUSINESS CATEGORY**



To comply with the Redwood City BLT program, business owners must submit a Business License Application prior to operating in the City and renew their application each year by paying their taxes by July 1 each year. Administration of the existing BLT is relatively simple because businesses self-report relevant information.

4) Comparisons to Nearby Jurisdictions

One of the City’s Guiding Principles in the Strategic Plan is Economic Vitality: *Support Redwood City’s economic prosperity by attracting, retaining, and expanding a diverse mix of businesses that meet community needs.* Accordingly, the City has considered business license tax structures in other communities when evaluating how best to modernize Redwood City’s tax to increase revenue and reduce inequity.

Cities have significant flexibility in designing business tax programs appropriate for their community, and approaches to the tax vary. Nearby jurisdictions that might be considered competitors to Redwood City for business location have adopted business tax programs unique to their community, but generally are based on gross receipts, number of employees, or a combination of these factors.

TABLE 4

TAX STRUCTURE BY LOCAL JURISDICTION				
Primarily Based on Gross Receipts	Primarily Based on Number of Employees	Combines Flat Rate and Per-Employee Rates	Combines Gross Receipts and Number of Employees	Primarily Based on Business Square Footage
Burlingame	San Carlos	Mountain View	San Mateo	Palo Alto
Daly City	San Jose			
Foster City	South San Francisco			
Menlo Park				

Recognizing that many businesses operate in multiple communities in the Bay Area and recognizing that some businesses have flexibility in changing locations, the City considered these models in developing the proposed rate structure. To understand how the City’s current and proposed Business License Tax compares to other cities, it is helpful to not only consider the total tax generated in other cities compares to Redwood City (as described above) but also how key elements of the tax compare. This includes the registration fee or “base fee;” the per-employee rate (when the tax is not based on gross receipts), and whether there is a maximum payment limit or “cap” on a business’s payment.

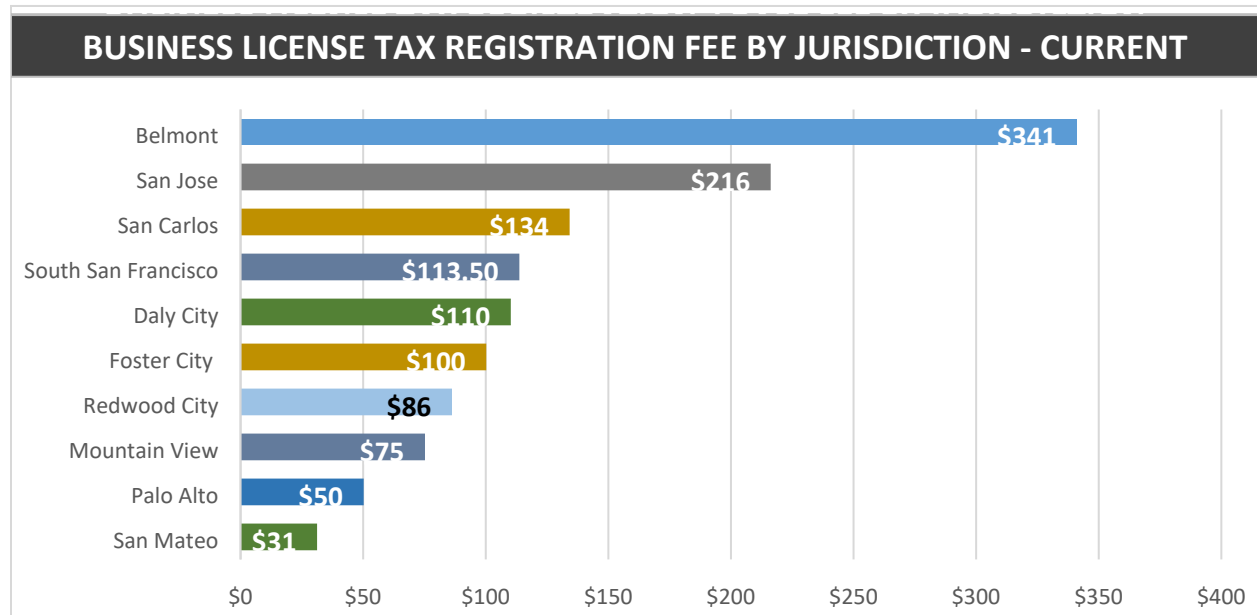
Notably, several nearby cities are also increasing changes to their BLT at this time. Belmont is considering moving to a gross receipts-based model, and Foster City and South San Francisco are currently evaluating ballot measures to increase BLT revenue. Potential increases in other cities are identified in the charts below.

Annual Registration Fee

A typical business license tax includes some version of an annual registration fee that initiates participation in the business license program. As shown in the chart below, comparable nearby cities employ a range of registration fees amounts. It appears the City of San Mateo’s annual registration fee is lowest at \$31, while the City of Belmont’s registration fee is highest at \$341.

At \$86, Redwood City’s current (and proposed) annual registration fee appears to be competitive in comparison with other jurisdictions, and the proposed rate of \$90 remains competitive with other jurisdictions.

CHART 3



Per-Employee Rate

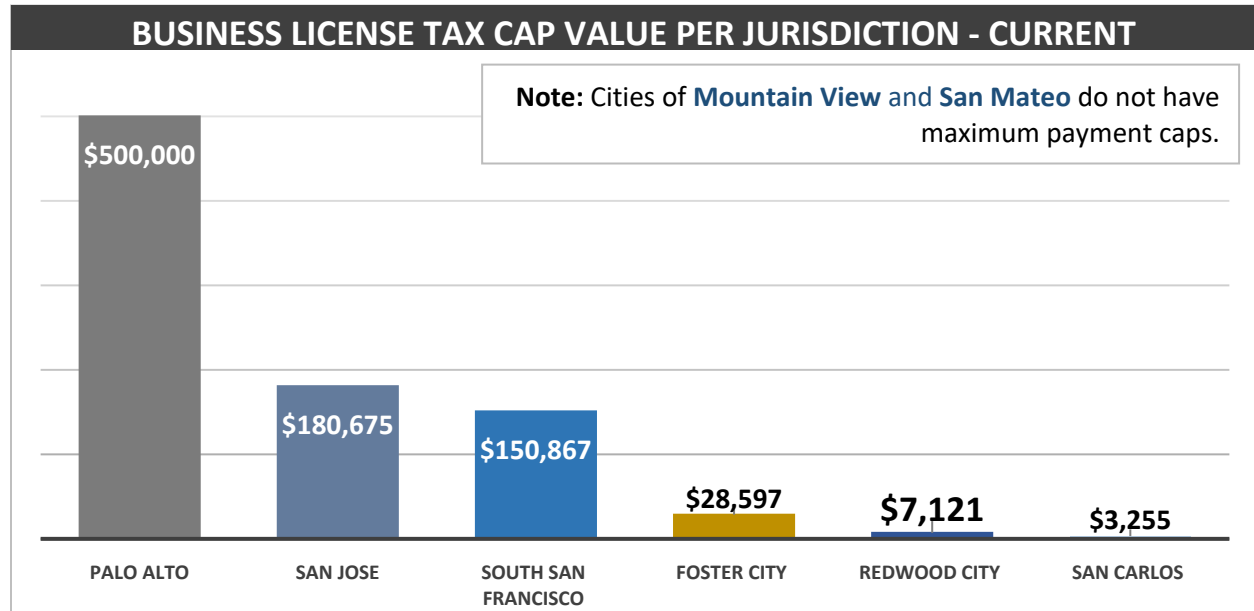
As noted previously, a BLT may be designed and implemented in a variety of ways. Staff researched several methods that are utilized in cities across San Mateo and Santa Clara counties, shown in Table 4. Of comparable cities that utilize a per employee rate (based on number of employees or a combined flat rate and per employee rate), Mountain View, San Carlos, and South San Francisco have adopted per employee rates that range from \$110 to \$226, respectively. South San Francisco is considering a potential business license tax update in November 2024 that would increase the maximum rate from \$226 to \$275 per employee.

To date, staff has received a majority of concerns from large businesses in the professional services category. In an effort to evaluate the City’s competitiveness in comparison to other cities in San Mateo and Santa Clara counties, staff modeled the business license tax implications of a prototypical 450-employee company or firm, calculated for the varied tax structures across each jurisdiction.

Maximum Payment or “Cap”

Of our 11 neighboring jurisdictions that might be considered competitors or which host larger businesses that operate in multiple communities, five have a maximum payment or a “cap.”

CHART 4

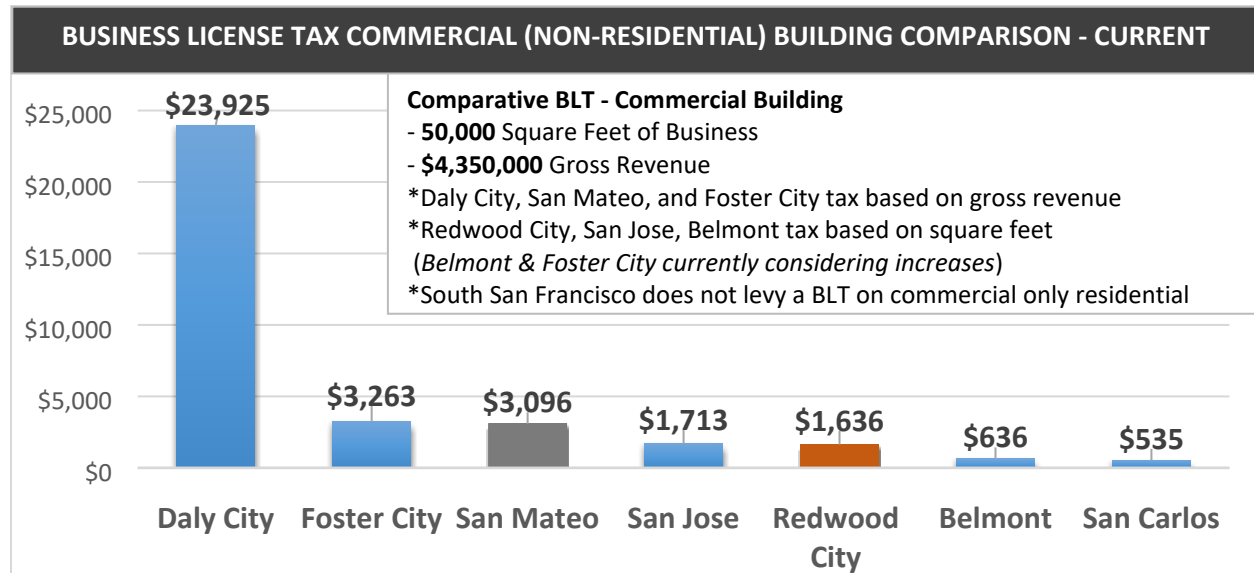


Of the five comparison cities which have a cap, with the exception of San Carlos’ cap of \$3,255, Redwood City’s BLT cap (\$7,121) is lowest among peer cities. Currently, Palo Alto has the highest cap (\$500,000) but this could change: Belmont, Foster City, and South San Francisco are considering modifying their respective business license tax programs, which would include an increased cap to \$250,000 in Foster City and \$500,000, \$1 million, or no cap in South San Francisco. This comparison is subject to change and is discussed further below; see Chart 9.

Commercial (Non-Residential) Buildings

Chart 5 below illustrates how the application of this tax, at current rates of \$31 per 1,000 sq. ft. compares with neighboring jurisdictions for a sample prototype commercial building. This comparison is subject to change and is discussed further below; see Chart 10.

CHART 5



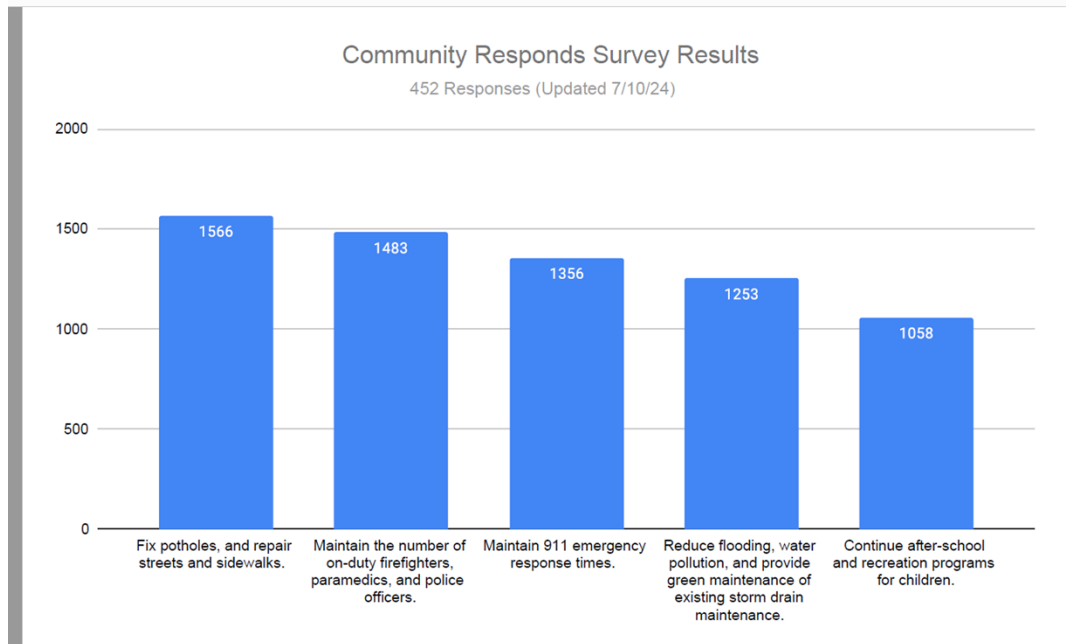
5) Community Outreach and Stakeholder Engagement Activities and Feedback

In addition to discussing potential revenue measures at numerous Finance and Audit Sub-Committee and City Council meetings over the last fiscal year, with meetings open to the public, the City conducted outreach and engagement related to potential modification of the Business License Tax in three phases:

- November – December 2023. For the initial phase of outreach, staff engaged various stakeholder groups such as the San Mateo County Association of Realtors (SAMCAR), the California Apartment Association (CAA) the Chamber San Mateo County (Chamber), and the San Mateo County Economic Development Association (SAMCEDA).
- January – March 2024. The City sought input from the residents on City services through the bi-annual Community Satisfaction Survey, and conducted public opinion surveys on services and potential revenue measures. Results from these efforts were presented to the City Council on [April 1, 2024](#). In general, the surveys and polling found strong support for City services at current levels, particularly for public safety services, streets and sidewalks, flood control and after-school programs for children and youth. Polling indicated likely voters would support modernization of a Business License Tax.

- April – July 2024. The City hosted approximately 20 meetings with members of the business community, residents, and other stakeholders to explore modernizing the City’s Business License Tax and seek input on City services. Additionally, the City continued to seek community feedback on City services through an online survey. Survey results, shown below, are consistent with feedback previously provided.

CHART 6



Highlights from this extensive period of community engagement are as follows:

- The Redwood City community – including the business community – values the services Redwood City provides.
- Several businesses expressed a willingness to pay more to avoid service reductions.
- Many businesses expressed concerns that a tax based on gross receipts would be much more complicated for them to calculate.
- Many businesses expressed concerns that a tax based on gross receipts would be much more expensive.
- Several businesses sought certainty in their annual tax bill, such as a cap or a maximum payment.
- Many in the community – including the business community – are concerned that the current structure means small businesses pay more than their fair share for services.

A detailed overview of community outreach and stakeholder engagement is provided as Attachment D.

6) Proposed Approach to Modernizing the Business License Tax

Balancing the City Council's direction with the feedback received during extensive through outreach and engagement efforts, the Ad Hoc Committee considered how to accomplish several outcomes at once:

- 1) To ensure the City can continue to provide services that residents and the business community rely upon;
- 2) To reduce burdens on small business by reducing or eliminating the current regressive tax structure; and
- 3) To maintain Redwood City's competitiveness as a business destination.

Balancing all of these objectives, the proposed modification of the BLT includes the following key elements:

- *Continue to base the tax on rates on a per employee basis (instead of gross receipts), as was strongly preferred in discussion with business groups, but establish different rates based on the business category (such as retail/commercial, contractors, services, and professional services).* This approach recognizes that some categories generate sales tax (which helps fund City services) and that some categories have very high revenue generation per employee. Charging different rates for different business categories would reduce the regressive nature of the current tax structure so that all businesses pay a fair share of the cost of City services.
- *Support the smallest businesses with reduced per-employee rates.* Retail and commercial businesses with three employees or less would pay \$10 per employee instead of the current \$57 per employee, and retail and commercial businesses with four to 10 employees or less would pay \$50 per employee instead of the current \$57 per employee.
- *Retain the current per-unit charges for residential rental property with no change in the rate, while ensuring that deed-restricted affordable housing units remain exempt from the tax.* This approach supports the City's long-standing priority to support housing for all in the community by avoiding new costs for housing providers.
- *Retain the current square footage-based charges for commercial rental property, increasing the rate from \$31 to \$75 per \$1,000 square foot.* This brings the City's rate in line with rates in several nearby cities but does not set it at a level that would provide an incentive for a business to move.
- *Increase the base registration fee for all businesses by \$4, from \$86 to \$90.* This approach ensures all businesses share a cost increase associated with the updated tax.
- *Increase the "cap" or maximum payment that larger companies may be required to pay to \$500,000 in order to reduce the regressive nature of the current tax.* Palo Alto currently has a \$500,000 cap and Foster City voters will be asked to consider a \$250,000 cap. South San Francisco is currently considering whether to increase, or simply remove, their cap. Notably, the City of Mountain View does not have any cap on maximum payments by businesses. This approach would provide some certainty and predictability to businesses, while also advancing the City's objectives of increased funding for services and increasing equity in the tax structure.

- *Retain the City’s current approach of increasing all elements of the program by the Consumer Price Index (CPI) annually.* This would include the registration fee, per employee rate, residential and commercial leasing rates, and maximum payment “cap.” This approach would ensure that the effective value of the tax keeps pace with inflation.
- *Exempt all childcare operators from the BLT.* Non-profit and in-home child care providers are exempt from the BLT. There are currently an estimated 10, non-exempt childcare operators in Redwood City, and the City Council has expressed interest in supporting additional child care in Redwood City through multiple policy measures. If these businesses were exempt, the City could forego approximately \$16,000, annually.

An overview of the proposed approach is provided in Table 5 below:

TABLE 5

RECOMMENDED BUSINESS LICENSE TAX STRUCTURE			
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 sq. ft.
Maximum Payment or Cap per Business	\$500,000	NA	NA

If adopted and fully implemented, it is estimated that this model would generate approximately \$7.7 million in net new revenue annually. Although diverging from previous direction to consider a gross receipts model, the proposed modifications would increase payments by businesses with more employees and generate more revenue than the current BLT by substantially increasing the cap on maximum payments by a business. It also would maintain an ease of compliance for the business community and ease of administration for the City. The proposed model would address interests expressed through the

community engagement process, including a desire to continue services at current levels and to continue an employee-based model, and yet would represent significant modernization of the existing tax. Overall, the Ad Hoc Committee believes that the structure is fair and competitive with other communities, avoiding negative outcomes such as significant business displacement or inability to attract new businesses. The City routinely evaluates taxation trends through its budget process and staff can provide the City Council with updates on the BLT, both from the standpoint of revenue received and businesses locating in or leaving Redwood City, on an annual basis.

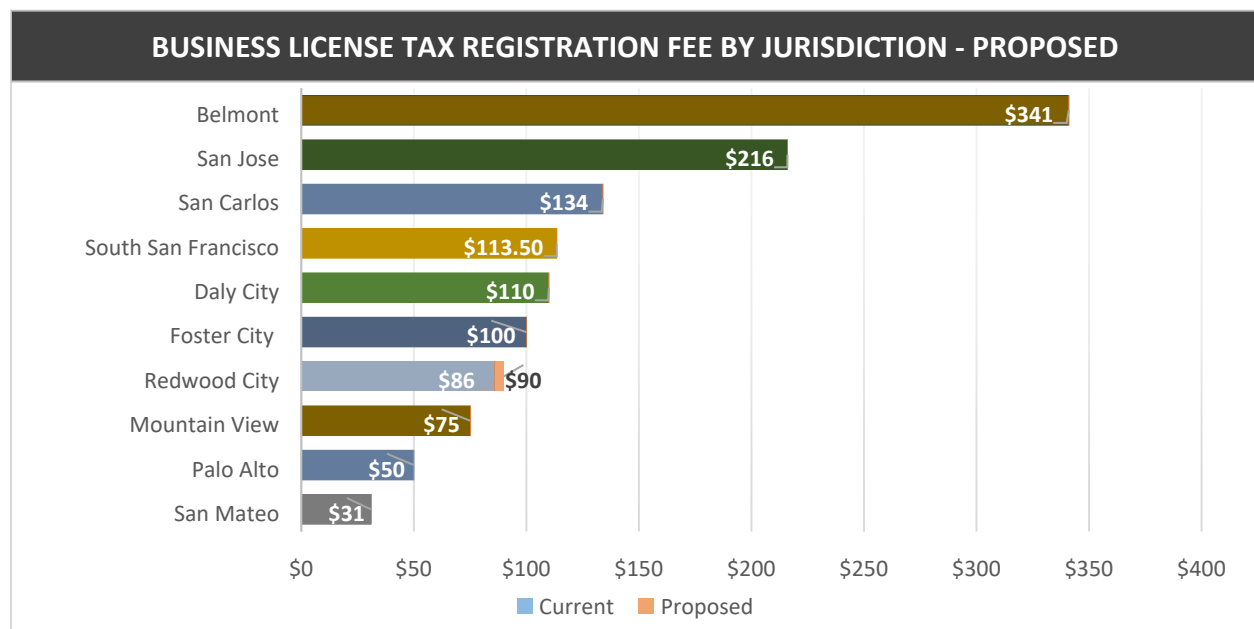
Comparable Jurisdictions

With the proposed changes to the BLT structure, Redwood City’s BLT rates would remain competitive with neighboring jurisdictions. This is illustrated in the charts 7-10 below:

Proposed Registration Fee Comparison

Staff proposes a modest, \$4 increase to the current registration fee from \$86 to \$90. As shown in Chart 7 below, the Redwood City registration fee would maintain competitiveness in comparison to neighboring cities.

CHART 7

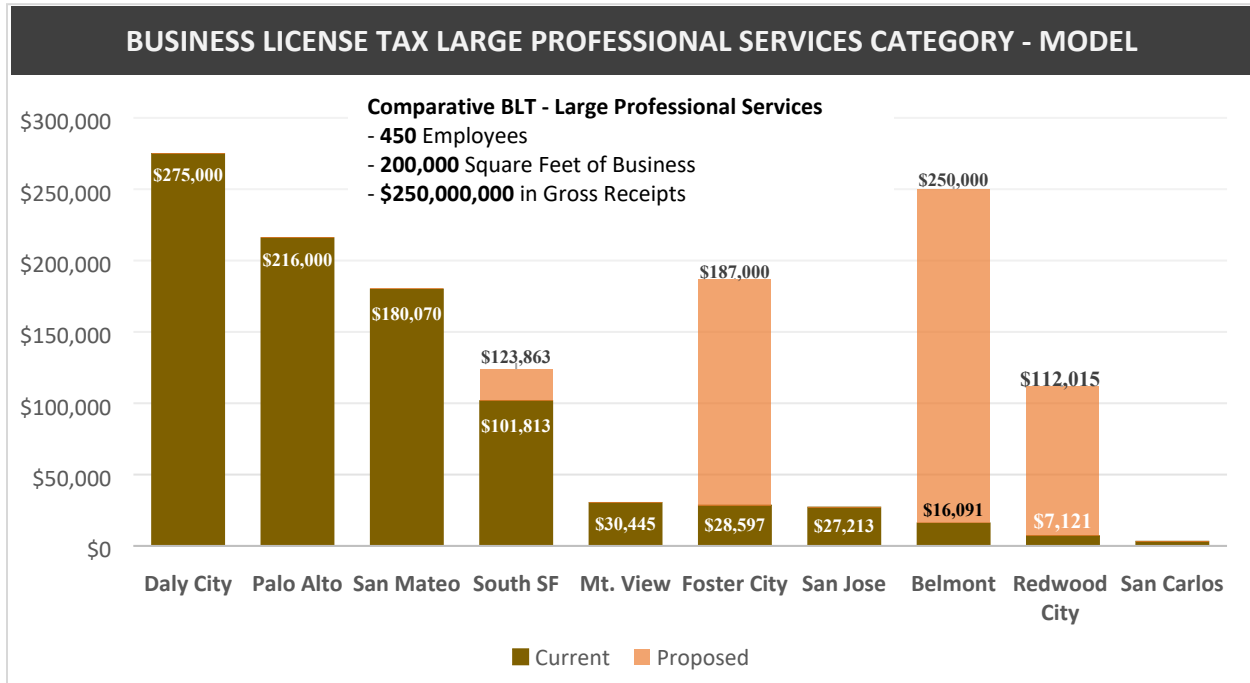


Proposed Per Employee Rate (Head Count) Comparison

Of comparable cities that utilize a per employee rates (based on number of employees or a combined flat rate and per employee rate), Mountain View, San Carlos, and South San Francisco have adopted per employee rates that range from \$110 to \$226, respectively. South San Francisco is considering a potential business license tax update in November 2024 that would increase the maximum rate from \$226 to \$275 per employee.

To date, staff has received a majority of concerns from large businesses in the professional services category. In an effort to evaluate the City’s competitiveness in comparison to other cities in San Mateo and Santa Clara counties, staff modeled the business license tax implications of a prototypical 450-employee company or firm, calculated for the varied tax structures across each jurisdiction.

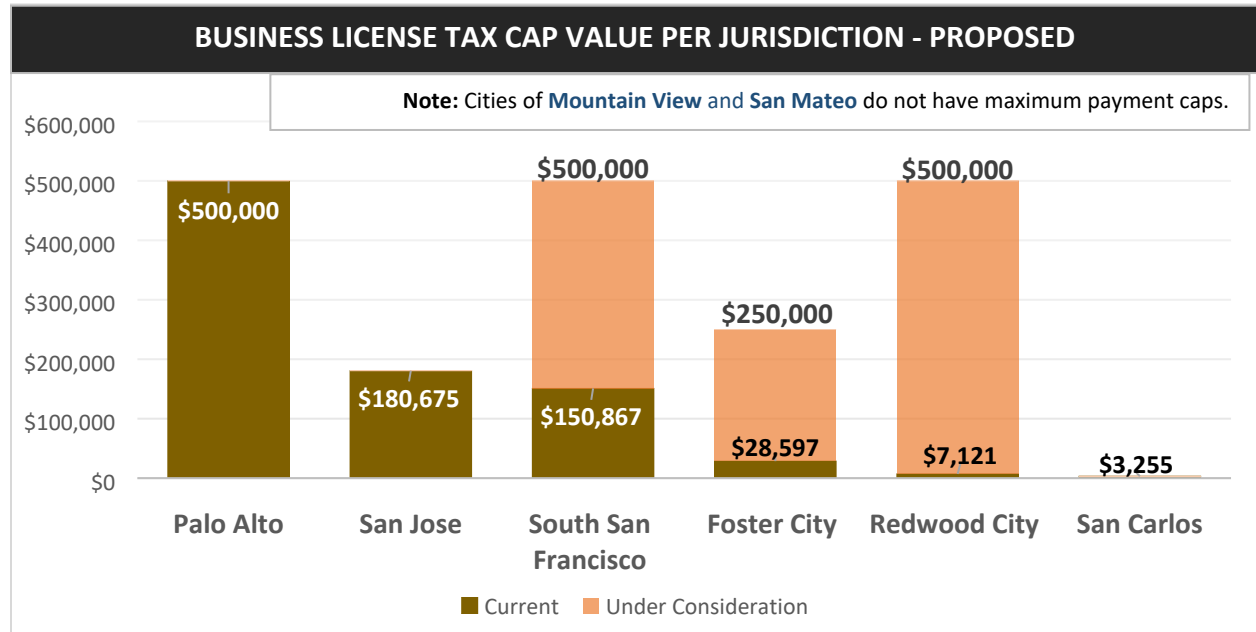
CHART 8



Proposed Maximum Payment or “Cap” Comparison

As shown earlier in this report, the maximum payment or cap value currently employed by Redwood City is significantly lower than that of neighboring jurisdictions that employ a cap. On July 15, 2024, the City Council of the City of Foster City took action to place a business license tax revision on the November 2024 ballot, recommending a new cap of \$250,000. These and other modifications that are under consideration are shown in Chart 9 below.

CHART 9

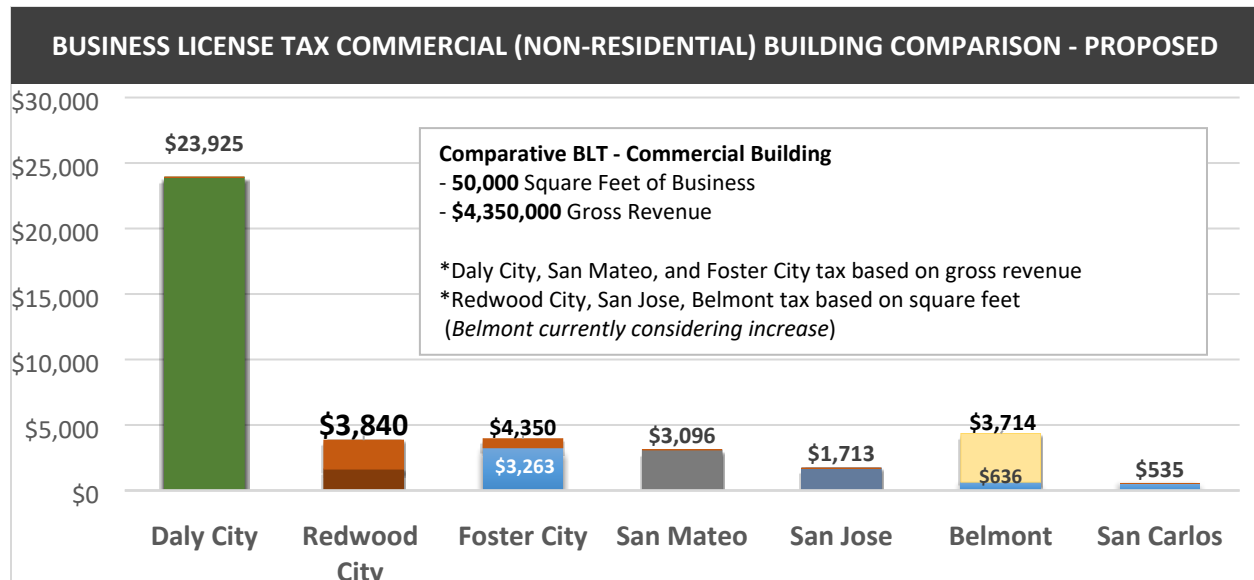


The proposed maximum payment structure places Redwood City in a highly comparable position to neighboring cities, while increasing City revenues and correcting the previously disproportionate cap.

Commercial (Non-Residential) Buildings

The proposed BLT modification for commercial (non-residential) buildings to a rate of \$75 per 1,000 square feet is illustrated below for a sample prototype commercial building, shown in comparison with neighboring jurisdictions.

CHART 10



The example above demonstrates that the proposed BLT would place Redwood City in a relatively similar position to other local cities, yet still far below that of Daly City (based on gross receipts), noting that Foster City and Belmont are considering increasing their rates, respectively.

Annual Review BLT Report

If the City Council places a BLT modernization ballot measure on the November 2024 ballot, and voters approve the measure, staff propose to provide the City Council with information on an annual basis, thus offering City Council an opportunity to evaluate the revenue generated and any notable changes in business activity in Redwood City. In addition, an annual review of BLT progress allows flexibility to evaluate the program in the context of the changing financial environment, such as the 2009 Great Recession and the COVID-19 Pandemic that devastated many businesses in Redwood City. In such situations, the City Council would have the ability to lower (but not increase) rates.

Text of Proposed Ballot Question

Shall the measure to maintain local city services, such as: maintaining 911 emergency response/neighborhood police patrols; fixing potholes, repairing streets/sidewalks; maintaining on-duty firefighters/paramedics; and storm drains to prevent flooding; by modernizing the City of Redwood City business license tax base, and per employee rates between \$10 and \$250, with the highest fee on larger

businesses, for general government use, as described in the ordinance, providing approximately \$7,000,000 annually, until ended by voters, be adopted?

Next Steps

To proceed, the City Council must call for an election on the measure, including the ordinance modifying the City's current BLT, to be approved by Redwood City voters. The proposed resolution would submit the ordinance as written and call for the measure to be submitted to the voters of the City at an election to be held on November 5, 2024.

The proposed resolution also directs the City Attorney to prepare the impartial analysis. The ballot argument may be signed by up to five people and may be any combination of members of the City Council, authorized representatives of bona fide associations, or individuals eligible to vote on the measure. The deadline to file the argument in favor of the measure is August 13, 2024, at 5:00 p.m.

Should voters ultimately approve a ballot measure to modernize the BLT, the new rate structure would be effective July 1, 2025. Staff would conduct outreach to the business community to communicate the new rates and confirm the process for paying the tax.

EQUITY IMPACT STATEMENT

Since the earliest discussions related to modernization of the BLT, City Council has articulated their goal of mitigating the regressive nature of the current tax structure - which burdens small businesses with a proportionately higher tax rate than large businesses - and creating a model in which all sectors of the business community pay a fair share toward maintaining services.

The recommended model would provide for lower tax rates for businesses with fewer employees and higher tax rates for businesses with more employees.

Additionally, throughout this process, the City has engaged with many segments of the community and utilized multiple strategies to receive input on the City's process to modernize the BLT. In addition to hosting approximately 20 group meetings with business leaders and other stakeholders, reflecting the diversity of Redwood City residents, the City also conducted a Community Satisfaction Survey and independent public opinion survey. These surveys weighted survey responses to ensure the population characteristics mirrored the 2020 Census and 2022 American Community Survey (for the community satisfaction survey) and the actual population characteristics of likely voters in Redwood City in terms of gender, age, and political party type (for the public opinion surveys).

FISCAL IMPACT

If voters approve the measure, the City anticipates additional General Fund revenues of approximately \$7.7 million per year. This would not resolve the City's projected annual operating deficits, which are estimated at \$9.3 million, but would substantially improve the City's ability to continue providing current

services. All funds generated from this measure would remain with the City to fund City services. Some City Councilmembers have expressed interest in increasing the Transient Occupancy Tax (TOT) at a future date to narrow the operating deficit further. For reference, increasing the TOT from 12% to 14% is estimated to generate \$600,000 annually.

The cost of placing the measure on the ballot is estimated at between \$98,000 to \$217,200, dependent on page length. The FY 2024-2025 Adopted Budget includes funding for this action.

ENVIRONMENTAL REVIEW

This activity is not a project under California Environmental Quality Act (CEQA) as defined in CEQA Guidelines, section 15378, because it has no potential for resulting in either a direct or reasonably foreseeable indirect physical change in the environment.

PUBLIC NOTICE

Public notification was achieved by posting the agenda, with the agenda items being listed, at least 72 hours prior to the meeting.

ALTERNATIVES

1. Take no action, and do not move forward with a ballot measure.
2. Direct staff and the Business License Tax Ad Hoc Committee to develop alternative approaches for future City Council discussion. Due to election timeline constraints and the need for additional staff analysis and community engagement, it is not feasible to place an alternative revenue measure on the November 2024 election ballot.

ATTACHMENTS

Attachment A – Resolution (Draft Ordinance as an exhibit)

Attachment B – History of Redwood City Business License Tax Modifications and Updates

Attachment C – San Mateo County Cities Considering Revenue Measures for November 2024

Attachment D – Community Outreach and Stakeholder Engagement Overview

REPORT PREPARED BY:

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(650) 780-7302

APPROVED BY:

Melissa Stevenson Diaz, City Manager

RESOLUTION NO. ____

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDWOOD CITY 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 THAT ELECTION A MEASURE MODERNIZING CATEGORIES OF BUSINESSES SUBJECT TO THE CITY'S BUSINESS LICENSE TAX AND INCREASING THE BUSINESS LICENSE TAX RATE

WHEREAS, the City of Redwood City adopted a Business License Tax in 1911 and the current tax rate structure, adopted in 1967, is old and outdated, with smaller businesses paying a proportionately higher tax than larger businesses; and

WHEREAS, the City's Business License Tax has not been updated since 2011 and does not reflect the way business operates in the City today; and

WHEREAS, over several months, the City has engaged members of the business community, neighborhood association leaders, community organizations and groups, and residents through approximately 20 group meetings and community surveys; and

WHEREAS, modernizing the Business License Tax will ensure that large businesses pay their fair share for City services; and

WHEREAS, modernizing the Business License Tax will lower the proportionate tax burden on small businesses; and

WHEREAS, the City seeks to maintain general city services, contributing to a high quality of life, while not increasing annual taxes on Redwood City residents; and

WHEREAS, modernizing the Business License Tax would provide locally controlled funds to maintain 911 emergency response times, neighborhood police patrols and crime prevention, and the number of on-duty firefighters, paramedics, and police officers; and

WHEREAS, this measure would help fund repairs for potholes, streets and sidewalks; and

WHEREAS, funds from this measure will be used solely for local needs, not taken by Sacramento; and

WHEREAS, cities in the San Francisco Bay Area have imposed business license taxes to appropriately track modern regional economic conditions and that, accordingly, far exceed the amount of revenue generated by the City's outdated Business License Tax; and

WHEREAS, the City of Redwood City established a Business License Tax Reform Ad Hoc Committee for the purpose of analyzing the City’s economic conditions, engaging in community outreach, receiving stakeholder feedback, and making recommendations for modernizing the City’s Business License Tax; and

WHEREAS, the ordinance attached hereto as Attachment A and incorporated herein by reference (the “Ordinance”) incorporates the Ad Hoc Committee’s recommendations and would increase the rate of the City’s Business License Tax; and

WHEREAS, Government Code section 53724 authorizes the City Council, by a two-thirds vote of all its members, to propose a general tax; and

WHEREAS, Elections Code section 9222 authorizes the City Council to submit an ordinance directly to the voters; and

WHEREAS, the California Constitution, Article XIII C, Section 2(b), requires that a proposed tax be submitted to the voters at a general municipal election; and

WHEREAS, on June 24, 2024 by separate action the City Council called for holding a general municipal election for four municipal officers to be consolidated with the November 5, 2024 statewide general election; and

WHEREAS, this Council desires to call an election for the measure modernizing the categories of businesses subject to the City’s Business License Tax and increasing the Business License Tax rate, and consolidate that election with the Statewide General Election and General Municipal Election.

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF REDWOOD CITY, AS FOLLOWS:

SECTION 1. Proposal to Impose a General Tax. The City Council proposes to impose the general tax set forth in the Ordinance, Exhibit A (attached hereto), which is incorporated herein. The proposed type of tax is an annual business license tax to support general city services, the rate of tax consists of a \$90 annual registration fee for each business plus an incremental rate ranging from \$10 to \$250 per employee depending on the type of business, as set forth in the Ordinance. The City Council may change the rates up to the maximum rates set forth in the Ordinance. The rates are subject to annual inflation adjustments. The method of tax collection is as provided in The City of Redwood City Municipal Code, Chapter 32, Article V, Divisions 2, 3 and 4.

SECTION 2. Calling the Election and Request for Consolidation. Pursuant to the City Charter and Elections Code sections 9222 and 10403, the City Council hereby calls an election to be consolidated with the City’s general municipal election and statewide general election to be held on November 5, 2024, for the purpose of submitting the proposed measure to modernize the categories of businesses subject to the City’s Business License Tax and increase the Business License Tax rate described above and

set forth in the Ordinance, to a vote of the qualified voters of the City of Redwood City, and hereby requests the Board of Supervisors of the County of San Mateo to consolidate this election with the November 5, 2024, statewide general election. The consolidated election shall be held and conducted in the manner prescribed by Elections Code section 10418. The City Council hereby authorizes the City Clerk to take any and all actions necessary to prepare for and conduct said elections consistent with all applicable laws.

SECTION 3. Request for Services and Conduct of Election. The Board of Supervisors of the County of San Mateo is hereby requested to permit the County Elections Official to render specified services to the City relating to the conduct of the election and is hereby authorized to canvass the returns of said municipal election, and said election shall be held in all respects as if there were only one election and only one form of ballot. The County shall certify the results of the canvass of the returns of said election, to the City Council of this City which shall thereafter declare the results thereof. In all particulars not specified in this resolution, the election shall be held and conducted as provided by law for holding municipal elections.

SECTION 4. Submission of Measure to the Voters. Pursuant to the City Charter and the Elections Code, the City Council hereby orders the measure to modernize the categories of businesses subject to the City’s Business License Tax and increase the Business License Tax rate to be submitted to the qualified voters of the City of Redwood City at the November 5, 2024 general election, subject to the approval of a majority of the voters voting on the measure at the election called by the adoption of this resolution. The full text of the measure that shall be voted on is attached hereto as Exhibit A. If approved by the voters, the Ordinance shall be in effect until repealed or amended by the voters.

SECTION 5. Ballot Question. The City Council, pursuant to Elections Code sections 9222, 13119, and 10403, hereby orders that the abbreviated form of the measure shall appear on the ballot as follows:

Shall the measure to maintain local city services, such as: maintaining 911 emergency response/neighborhood police patrols; fixing potholes, repairing streets/sidewalks; maintaining on-duty firefighters/paramedics; and storm drains to prevent flooding; by modernizing the City of Redwood City business license tax base, and per employee rates between \$10 and \$250, with the highest fee on larger businesses, for general government use, as described in the ordinance, providing approximately \$7,000,000 annually, until ended by voters, be adopted?	YES
	NO

SECTION 6. Impartial Analysis by City Attorney. The City Clerk is hereby directed to transmit a copy of the measure attached hereto as Exhibit A to the City Attorney, who shall prepare an impartial analysis of the measure in accordance with Elections Code section 9280. The City Attorney shall submit the impartial analysis to the City Clerk no later than Tuesday, August 20, 2024 at 5:00 P.M.

SECTION 7. Written Arguments. Pursuant to Elections Code sections 9282 and 9285, the City Council authorizes Council members Aguirre, Howard, and Sturken to draft, select authors and file the direct argument in support of the measure and the rebuttal argument to the argument against the measure, if any. Pursuant to Elections Code section 9285(b), the City Council hereby authorizes rebuttal arguments if arguments have been filed in favor of or against the measure. At the discretion of the Council members authorized herein, the argument in favor and rebuttal, if any, may be signed by bona fide associations of citizens, by individual voters, or by members of the City Council. The deadline for submitting ballot arguments for or against the measure shall be 5:00 P.M. on Tuesday, August 13, 2024. Proposed arguments shall not exceed 300 words and shall be submitted to the Office of the City Clerk. The deadline for submitting rebuttal arguments shall be 5:00 P.M. on Tuesday, August 20, 2024. Proposed rebuttal arguments shall not exceed 250 words and shall be submitted to the Office of the City Clerk. The provisions of Elections Code section 9285(a) shall apply to the submittal of rebuttal arguments. All arguments and rebuttal arguments shall be submitted to the Office of the City Clerk.

SECTION 8. City Clerk. The City Clerk is hereby directed to file a certified copy of this resolution with the San Mateo Clerk of the Board of Supervisors and the County Registrar of Voters in sufficient time so that the measure may be included on the November 5, 2024, City municipal election and statewide general election ballot. The City Clerk is hereby directed to perform all other acts that are required for submitting the measure to be voted on at the November 5, 2024, general municipal election and statewide general election. The text of the measure shall not appear in the voter pamphlet given its length and resulting expense, but the Clerk shall post the measure on the City's website and provide any person a copy of the measure upon request.

SECTION 9. Notice. Notice of the time and place of the election on the measure is hereby given, and the City Clerk is authorized, instructed, and directed to give further or additional notice of the calling of the Consolidated Election, in the time, form, and manner as required by law.

SECTION 10. Majority Vote. This measure proposes to amend the Redwood City municipal code and shall be approved if a majority (50% +1) of those voting on the measure approve it.

SECTION 11. Form of Ballot. The ballots to be used at the election shall be in form and content as required by law.

SECTION 12. Certification. The City Clerk shall certify the passage and adoption of this Resolution and enter it into the book of original Resolutions.

SECTION 13. CEQA. This action is not a project and is exempt from the California Environmental Quality Act (CEQA) pursuant to section 15378(b)(3) of CEQA Guidelines, it concerns the submittal of a measure to the voters of the City.

SECTION 14. Effective Date. This Resolution shall become effective upon its adoption.

* * *

EXHIBIT A

ORDINANCE NO. _____

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF REDWOOD CITY AMENDING DIVISIONS 1, 4, AND 6 OF ARTICLE V OF CHAPTER 32 OF THE REDWOOD CITY MUNICIPAL CODE TO MODERNIZE CATEGORIES OF BUSINESSES SUBJECT TO THE CITY'S BUSINESS LICENSE TAX AND INCREASE THE BUSINESS LICENSE TAX RATE

[Additions to Code are in single-underline italics font; deletions are in ~~strikethrough~~ text.]

The People of Redwood City do Ordain as follows:

Section 1. Division 1 of Article V of Chapter 32 of the Redwood City Municipal Code is amended to read as follows:

DIVISION 1. - PURPOSE AND DEFINITIONS

Sec. 32.101. - PURPOSE OF ARTICLE:

The purpose of this Article is to provide for the establishment and levying of license taxes for the transaction and carrying on of certain businesses, trades, professions, callings and occupations in the City. This Article is enacted solely to raise revenues for municipal purposes and is not intended for regulation.

Sec. 32.102. - DEFINITIONS:

As used in this Article, the following definitions shall apply:

APPLICANT: An applicant for a business ~~tax~~ license pursuant to this Article, including a renewal thereof.

AVERAGE NUMBER OF PERSONS EMPLOYED:

A. The number of employees as herein defined employed monthly within the City earning wages for the periods nearest the fifteenth day of each month during the previous year as reported by the applicant to the State Department of Employment on forms which are used for reporting payments due under the Unemployment Insurance Act of the State of California for each month of the previous calendar year, adding the same and dividing by twelve (12) and adding to the result thereof the number of employees compensated by other than wages engaged in the business. If the applicant has been in business less than one year, the average number of employees shall be the number of employees determined as described above divided by the number of months remaining in the calendar year for which such calculation is made.

B. As an alternative to the definition in A, above, and at the option of the applicant, the "average number of persons employed" shall mean the average number of persons employed daily by the applicant for one year, determined by ascertaining the total number of hours of service performed in the City by all such employees during the previous year and dividing the total number of hours of service thus obtained by the number of hours of service constituting a year's work of one full-time employee according to the customs governing such employment and adding to the result thereof the number of owners, partners or other principals, salespersons or agents employed by the applicant, irrespective of the number of hours of service provided by such employees. "Hours of service" as used in this definition shall include all paid holidays, sick leave, vacations and any other days for which compensation is paid irrespective of whether work is performed therefor. As a condition to the optional use of the foregoing definition, the applicant shall provide all business records or other documentation related to the calculation aforesaid required by the Director.

BUSINESS: Trades, occupations, professions, and services of all and every kind of calling whether or not carried on for profit, including but not limited to retailing, wholesaling, manufacturing, service purveying, warehousing, personal and real property rentals, and growing of plants and crops, research and development in scientific fields, including software development, and the practice of specialized professions including but not limited to medicine, business consulting, and law. and animal husbandry for market.

~~COIN-OPERATED DEVICES ACTIVITY: The activity of managing, distributing, leasing or purveying coin-operated vending machines, laundry machines or facilities, amusement devices, including, without limitation, video and other electronic games, and any other coin-operated machine or device which provides a product, service or other thing of value.~~

~~COMMERCIAL ADVERTISING: The business carried on at a fixed location or locations in the City of selling or taking orders for or offering to sell or take orders for or preparing or printing or otherwise producing advertising copy, billboards, placards, banners or other visual objects (excluding films, videotapes or other electronic production media) for promoting the sale of products or otherwise advertising.~~

~~COMMERCIAL ADVERTISING VEHICLE OPERATION: The business of operating a vehicle (of any kind or nature, except devices moved by human power or used exclusively upon stationary rails or tracks) equipped with loudspeakers, musical devices, signs, placards, billboards, searchlights or other attention-getting devices for advertising purposes upon a public street, highway or other right-of-way.~~

CONTRACTOR: Any builder, contractor or subcontractor as defined in chapter 9 of division 3 (commencing with section 7000) of the Business and Professions Code of the State of California or, alternatively, as defined in the Rules and Regulations of the Contractor's State License Board enacted pursuant to section 7008 of said Code. For the purposes of this Article, any person engaged in activities similar to that of a contractor or subcontractor shall be deemed a contractor irrespective of whether said person is

licensed as such by the State or other licensing agency. Contractor shall include, and is not limited to, businesses engaged in the construction or repair of any buildings, including construction, plumbing, wiring, heating, ventilation, and air conditioning.

DIRECTOR: The Director of Finance of the City or ~~his or her~~ their designee.

EMPLOYEE: All persons engaged in the operation or conduct of any business including an owner, any member of an owner's family, partner, agent, manager, solicitor and any and all other persons employed or working in or associated with said business whether or not any salary or other compensation or remuneration is paid for such work. "Employee" as used herein includes employees (as defined above) of subcontractors, licensees or other persons engaged in the business for which a license hereunder is issued unless such subcontractors, licensees or other persons are licensed hereunder for the businesses in which they are engaged or which they conduct. Employee shall not include persons employed on a seasonal or periodic basis for less than one month or on a part-time basis for two (2) months or less.

FIXED PLACE OF BUSINESS: The premises occupied in the City for the particular purpose of conducting a business thereat and regularly kept open for that purpose.

GENERAL COMMERCE AND RETAIL: Any business operated for any purpose that is not included in any other defined category, including but not limited to retailers, restaurateurs, and other general businesses.

~~ITINERANT VENDOR: Any person, both principal and agent, engaged in a temporary and transient business in the City selling goods, wares and merchandise and who (for the purpose of carrying on such business) hires, leases or occupies any room, building or structure for the exhibition or sale of such goods, wares or merchandise or from which room, building or structure the sales shall be made or business solicited by means of samples or deliveries from house to house irrespective of whether such person associates temporarily with any local dealer, trader, merchant or auctioneer or conducts such temporary or transient business in connection with or as a part of or in the name of any local dealer, trader, merchant or auctioneer.~~

~~JUNK COLLECTOR: Any person engaged in the business of receiving, soliciting or otherwise obtaining used personal property for the purpose of selling, taking orders for or offering to sell parts or portions of said personal property after disassembly thereof.~~

~~MANUFACTURER: Any person engaged in the business of manufacturing, fabricating or processing any materials (raw or partly wrought) into goods, wares or merchandise or assembling or packaging any manufactured or processed material whether such manufactured or processed goods are sold or distributed to or through wholesalers, brokers or other channels for the purpose of resale.~~

NEWLY ESTABLISHED BUSINESS: A business in existence and operation for less than three (3) months.

~~NONRESIDENTIAL PROPERTY RENTAL: The business of renting or letting a building or structure of any kind or portions or areas thereof, including warehouses, ministorage facilities, industrial, commercial and office buildings of properties to a tenant or tenants for purposes other than residential dwelling, sleeping or lodging.~~

~~PEDDLER: Any person not having a regularly established place of business in the City who travels from place to place or has a stand upon any public street, alley or other public place, doorway of any building, unenclosed or vacant lot or parcel of land who sells or offers for sale any goods, wares or merchandise in his or her possession.~~

~~PERSON: Any individual person, corporation, partnership, association or other organizational form used for carrying on any business.~~

~~PROCESSOR: Any person engaged in the business of converting an article, substance or commodity into marketable form for the purpose of resale by changing its physical or chemical composition.~~

PROFESSION PROFESSIONAL SERVICE: Any profession, vocation, or calling that requires rigorous training through higher education or vocational institutions exclusively certifying the complete obtainment of skills and ability to offer professional services. This business category includes, but is not limited to, research and development and scientific fields, doctor's offices, law offices, dentist offices, veterinary offices, architectural firms, engineering firms, accounting firms, consulting firms, and software development companies.

~~Any profession, vocation or calling, the qualifications for which generally require an extended period or periods of specialized training and the issuance of an advanced educational degree or certificate and the performance of which requires licensing or certification or other official recognition. The term "professional person" as used in this Article shall include, but is not limited to, the following:~~

~~Architect.
Attorney at law.
Certified public accountant.
Chiropractor.
Dentist.
Geologist.
Medical practitioner.
Optician.
Optometrist.
Oral surgeon.
Osteopath.
Physician.
Podiatrist.~~

~~Professional engineer (including but not limited to civil, chemical, mechanical and electrical engineers).
Public accountant.
Surgeon.
Veterinarian.~~

~~RESIDENTIAL PROPERTY RENTAL: The business of managing, operating or renting any apartment house, duplex, hotel, motel, mobile home park, rooming or boardinghouse with two (2) or more residential units. For purposes hereof, the number of residential units aforesaid shall exclude that unit, if any, occupied by the applicant; provided, however, that the management, operation or rental of three (3) or less residential units shall not be deemed a residential property rental for purposes of this Article.~~

RENTAL (COMMERCIAL): Any business that manages, operates, leases, rents, or provides use of real property to another individual or entity for compensation, including but not limited to commercial leasing, parcel leasing, and hoteliers.

RENTAL (RESIDENTIAL): Any business that manages, operates, leases, rents, or provides use of any dwelling unit, including an apartment, house, duplex, hotel, motel, mobile home park, rooming or boardinghouse, to another individual or entity for compensation. For purposes hereof, a business that manages, operates, leases, rents, or provides use of a total of three or fewer dwelling units for compensation in the City shall not be deemed a residential rental business for purposes of this Article.

SERVICE: Any person engaged in the business of providing services that require minimal to no higher education or training, including but not limited to beauty salons, hair stylists, landscape gardeners, and personal trainers.

~~SOLICITOR/HAWKER: Any person engaged in the business of going from house to house, place to place or in or along the streets within the City selling or taking orders for or offering to sell or take orders for goods, wares, merchandise, advertising or any other thing of value for future delivery or for services to be performed in the future.~~

~~WHOLESALER: Any person engaged in the business of selling or soliciting the sale of goods, wares, merchandise or services for the purpose of resale and/or who sells in wholesale lots at wholesale prices.~~

Section 2. Division 4 of Article V of Chapter 32 of the Redwood City Municipal Code is amended to read as follows:

DIVISION 4. - EXEMPTIONS AND EXCLUSIONS

Sec. 32.130. CONSTITUTIONAL, STATUTORY EXEMPTIONS:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any person transacting, engaging in or carrying on any business which is exempt from the payment of such taxes under the Constitution or statutes of the State of California.

Sec. 32.131. CHARITABLE ORGANIZATIONS:

Nothing contained in this Article shall be deemed or construed to require the payment of any of business license tax prescribed in this Article by any institution or organization which is conducted, managed or carried on wholly for the benefit of charitable purposes and from which profit is not derived either directly or indirectly by any person.

Sec. 32.132. VETERANS:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any person who is an honorably discharged or released veteran of the Armed Forces of the United States, who is a resident of this State, and who sells or provides services if the veteran is the sole proprietor of the business.

Sec. 32.133. CARE FACILITIES:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any person engaged in or conducting the business of child day care facilities pursuant to as defined by California Health and Safety Code section ~~1596.803(b)(2)~~ 1596.750 as the same now exists or is hereafter amended or an adult day care facilities pursuant to California Health and Safety Code section 1569.84 as the same now exists or is hereafter amended.

Sec. 32.134. HOME OCCUPATIONS:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any person who is engaged in a home occupation conducted at the residence of said person in the City, the gross receipts from the operation of which are less than one thousand dollars (\$1,000.00) per year.

Sec. 32.135. PUBLIC UTILITY:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any public utility possessing a franchise granted by the City pursuant to which franchise said public utility pays to the City an annual franchise fee or otherwise makes annual payments to the City for the privilege in said franchise specified.

Sec. 32.136. RECREATION INSTRUCTORS:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any person engaged in the business of recreation instruction or sports officiating for programs or activities conducted or sponsored by the City.

Sec. 32.136.5. PERFORMERS AND ENTERTAINERS:

Nothing contained in this Article shall be deemed or construed to require the payment of any business license tax prescribed in this Article by any persons engaged in the performance, conduct, or staging of any amusement or entertainment, concert, exhibition,

lecture, dance or athletic event for programs or activities conducted or sponsored by the City or by a charitable organization.

Sec. 32.136.7. DWELLING UNITS EXCLUDED FROM INCREMENTAL TAX CALCULATION:

A. An owner-occupied residential dwelling unit shall be excluded from the calculation of a residential rental business's incremental tax.

B. Dwelling units rented or leased to households earning no more than the maximum income for low income households, as published annually by the California Department of Housing and Community Development (HCD) income limits for San Mateo County, pursuant to a recorded deed restriction shall also be excluded from the calculation of a residential rental business's incremental tax.

Sec. 32.137. CLAIM FOR EXEMPTION:

Any person claiming an exemption pursuant to this Division shall file an affidavit or declaration under penalty of perjury with the Director stating facts upon which such exemption is claimed and attaching thereto documents in support of such claim.

Sec. 32.138. EXEMPT LICENSE:

Upon a proper showing contained in said affidavit or declaration or attachments, the Director shall issue a license to the person claiming an exemption without payment to the City of the business license tax prescribed in this Article.

Sec. 32.139. REVOCATION:

The Director may revoke any license theretofore issued without payment of a business license tax upon information that said licensee is not entitled to an exemption or is no longer entitled to the exemption upon said license had been issued.

Sec. 32.140. RESERVED:

Section 3. Division 6 of Article V of Chapter 32 of the Redwood City Municipal Code is amended to read as follows:

DIVISION 6. - LICENSE TAXES

Sec. 32.151. - TAX IMPOSED:

Every person commencing, engaged in, conducting or carrying on a business within the City shall pay an annual business license tax. The tax consists of two (2) components: a ~~"base tax"~~ an "annual registration fee" calculated pursuant to Section 32.152 and an "incremental tax" calculated pursuant to Sections 32.154 and 32.154. ~~Where Section 32.154 indicates "base tax annual registration fee not applicable" with respect to a type of business, only the "incremental tax" is required.~~

Sec. 32.152. - ~~BASE TAX RATE~~ ANNUAL REGISTRATION FEE:

The annual rate for the annual registration fee ~~base tax~~ is:

~~\$43.00 effective July 1, 2012;~~
~~\$50.00 effective July 1, 2013; and~~
~~\$58.00 effective July 1, 2014.; and~~
\$90.00 effective July 1, 2025.

Sec. 32.153. -~~INCREMENTAL TAX RATE;~~ RATE ADJUSTMENT:

The City Council may, by resolution or ordinance and without voter approval, adjust the rate of the business license tax, including the annual registration fee in Section 32.152 and incremental tax rates in Section 32.154. However, in no event may the City Council (1) set any adjusted rates that exceed the maximum rates set forth in Sections 32.152 and 32.154, as adjusted by Section 32.156, for the date on which the adjusted rate will commence, or (2) adjust the maximum tax in Section 32.155.

~~Except where some other rate is set forth in Section 32.154, the rate for the incremental tax is:~~

~~\$28.00 per employee, effective July 1, 2012;~~
~~\$33.00 per employee, effective July 1, 2013; and~~
~~\$38.00 per employee, effective July 1, 2014.; and~~
\$.00 per employee, effective July 1, 2025.

~~The number of employees for a business shall be the average number of persons employed, including employees of contractors, subcontractors and professional persons engaged in or to be engaged in such business.~~

Sec. 32.154. -~~SPECIAL INCREMENTAL TAX RATES:~~

The rate for the incremental tax with respect to each type of business listed in this Section shall be:

Business Type	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	
Residential property rental	\$15.00	\$18.00	\$21.00	per unit of dwelling space in excess of 3 units
Nonresidential property rental	\$15.00	\$18.00	\$21.00	per 1,000 sq. ft. or fraction
Real-estate brokerage	\$28.00	\$33.00	\$39.00	per salesperson or employee
Dance hall operator	\$425.00	\$496.00	\$579.00	flat annual
Vehicle wrecking facility	\$425.00	\$496.00	\$579.00	flat annual
Christmas tree lot sales operation	\$425.00	\$496.00	\$579.00	flat annual
Commercial advertising	\$425.00	\$496.00	\$579.00	flat annual
Fortune telling	\$425.00	\$496.00	\$579.00	flat annual
Junk collector	\$425.00	\$496.00	\$579.00	flat annual
Pawnbroker	\$425.00	\$496.00	\$579.00	flat annual
Itinerant vendor	\$28.00	\$33.00	\$39.00	per week
Solicitors/hawkers	\$28.00	\$33.00	\$39.00	per day
Peddlers	\$28	\$33	\$39	per person

Business Type	Effective July 1, 2012	Effective July 1, 2013	Effective July 1, 2014	
Curb painters	\$15.00	\$18.00	\$21.00	per day per person
Carnival operator	\$354.00	\$413.00	\$482.00	per day
Coin-operated device activity	\$8.00	\$9.00	\$11.00	per device
Commercial advertising vehicle operation	\$43.00	\$50.00	\$58.00	per vehicle (base tax not applicable)
Contracting (excluding any contracting business with gross receipts over \$50,000.00) business in Redwood City	\$28.00	\$33.00	\$39.00	flat annual

<u>Business Category</u>	<u>Number of Employees</u>	<u>Per Employee Rate</u>
<u>General Commerce and Retail</u>	1-3	\$10
	4-10	\$50
	11+	\$80
<u>Contractors</u>	NA	\$150
<u>Services</u>	NA	\$130
<u>Professional Services</u>	First 3 Employees	\$175
	Employees 4-10	\$200
	Employees 11+	\$250
<u>Rental (Residential)</u>	NA	\$31 per unit
<u>Rental (Commercial)</u>	NA	\$75 per 1,000 sq. ft.

A. The number of employees for a business shall be the average number of persons employed, including employees of contractors, subcontractors and professional persons engaged in or to be engaged in such business.

B. For General Commerce and Retail businesses, one incremental rate shall apply to all employees, based on the total number of employees. For example, in 2025 a business with six employees shall pay an incremental rate of \$300 (6 employees x \$50). For Professional Services businesses, the incremental rates shall apply on a graduated basis. For example, in 2025 a Professional Service business with six employees shall pay an incremental rate of \$1,125 (3 employees x \$175 plus 3 employees x \$200).

Sec. 32.155. - MAXIMUM TAX:

Notwithstanding anything to the contrary contained in this Article, the annual business license tax payable for any one business shall not exceed:

~~\$3,535.00 effective July 1, 2012;
 \$4,124 effective July 1, 2013; and
 \$4,811 effective July 1, 2014.; and
 \$500,000 effective July 1, 2025.~~

Sec. 32.156. - AUTOMATIC ADJUSTMENT:

Commencing July 1, 2026 and on each subsequent July 1, each rate set forth in this Division (including the maximum rate set forth in Section 32.155) shall automatically adjust ~~by a percentage equal to~~ according to the following formula:

				{Current CPI}
{New Rate}	=	{July 1, 2014}	*	—
				{2014 CPI}

~~Where the "CPI" for a year is the Consumer Price Index (CPI) for All Urban Consumers for the San Francisco-Oakland-San Jose-Hayward Areas published by the United States Department of Labor, Bureau of Labor Statistics, for February of that year. For purposes of this automatic adjustment, i~~n no event shall any rate be reduced below the rate in effect immediately prior to the applicable adjustment. In the event the CPI is no longer published, the City Manager shall select a price index most nearly conforming to the CPI.

Section 4. The City Council may amend this Ordinance without voter approval consistent with its purposes provided that such amendments do not impose, extend, or increase a tax.

Section 5. This Ordinance amending Divisions 1, 4, and 6 of Article V of Chapter 32 of the Redwood City Municipal Code shall become effective (10) days after the date on which the City Council has approved the canvass of votes and declared that the voters of Redwood City have approved said Ordinance by a vote of no less than a majority of the votes cast by the electors voting on the tax measure set forth in this Ordinance at the general municipal election to be held on Tuesday, November 5, 2024. The operative date of the Ordinance shall be July 1, 2025.

Section 6. The City Clerk shall publish this Ordinance in accordance with the provisions of the City Charter.

* * *

ATTACHMENT B

History of City Council Action Related to Business License Tax

Date	Action	Summary
July 3, 1911	City Council adopted Ordinance No. 106 ¹	<ul style="list-style-type: none"> • Established business license fee structure for all specified businesses; most subject to flat rate based on type of business. • Retail businesses subject to rate based on average <u>quarterly</u> sales.
July 22, 1920	City Council adopted Ordinance No. 210 ²	<ul style="list-style-type: none"> • Established business license fee structure for all specified businesses; most subject to flat rate based on type of business. • Retail businesses subject to rate based on average <u>monthly</u> sales. • Repealed Ordinance No. 106.
January 5, 1931	City Council adopted Ordinance No. 319 ³	<ul style="list-style-type: none"> • Established business license fee structure for all specified businesses; most subject to flat rate based on type of business. • Retail businesses subject to rate based on average <u>monthly</u> sales. • Expanded and modified list of specified businesses and associated fees. • Repealed Ordinance No. 210.
November 4, 1940	City Council adopted Ordinance No. 447	<ul style="list-style-type: none"> • Established business license fee structure for all specified businesses; most were subject to a flat rate: <ul style="list-style-type: none"> ○ Some, for example “undertakers, morticians, or funeral directors” were to pay fees based on gross income per <u>quarter</u>; ○ Some, for example “barber shops and beauty parlors” were to pay quarterly based on <u>each chair</u> in use.
February 27, 1961	City Council adopted Ordinance No. 1002 ⁴	<ul style="list-style-type: none"> • Revised Ordinance 447 to include regulations related to pawnbrokers and second-hand dealers and fixing fee amount.

¹ Available in hard copy record of ordinances only.

² Ibid.

³ Ibid.

⁴ Ibid.

<p>May 31, 1967</p>	<p>City Council adopted Ordinance No. 1313</p>	<ul style="list-style-type: none"> • Established Municipal Code Section 32 Article 5 – Business License Tax effective July 1, 1967. • “Enacted solely to raise revenues for municipal purposes and is not intended for regulation.” • Established an employee base tax structure using a combination of a base rate plus additional fees based on the total number of employees. • Required those doing business in Redwood City, with limited exceptions, to obtain a business license from the City prior to conducting business activity. • Ascribed different base and per employee tax amounts based on the type of business. • Set forth deadlines for payment of business license tax based on the duration of the license – whether daily, monthly, quarterly, semi-annual or annual. • Outlined the process for appealing a decision to deny a business license.
<p>June 12, 1967</p>	<p>City Council adopted Ordinance No. 1316</p>	<ul style="list-style-type: none"> • Slightly modified the manner in which the license tax was calculated for those businesses being charged based on the average number of employees, vehicles, or other basis employed or used during the previous calendar year. • Added language pertaining to businesses that operate or manage apartment buildings. • Added language related to businesses in operation for less than one year and being taxes based on the number of employees – required to estimate and when the business license expires, required to provide actual number and pay any difference between estimate and actual.
<p>July 14, 1967</p>	<p>City Council adopted Ordinance No. 1320</p>	<ul style="list-style-type: none"> • Modified flat rate tax amount for specific businesses.
<p>May 7, 1990</p>	<p>City Council adopted Ordinance No. 2016</p>	<ul style="list-style-type: none"> • Revised section 32.146 to increase the base tax amount to \$30 plus the amount of \$20 times the average number of employees. • Established an annual increase of 5% for each Fiscal Year between July 1, 1990-June 30, 1995.

		<ul style="list-style-type: none"> Established a maximum tax amount for each fiscal year.
May 8, 1995	City Council adopted Ordinance No. 2089	<ul style="list-style-type: none"> Further defined the average number of employees for the purposes of calculating the business license tax amount. Increased the maximum business license tax to \$3,030 commencing in FY 1994-95. Establishes mechanism for increasing tax starting in Fiscal Year 1995-96 and during successive fiscal years thereafter, adjusting the maximum amount equal to the percentage change in the CPI.
August 23, 2011	City Council adopted Ordinance No. 2365	<ul style="list-style-type: none"> Amended section to reflect the tax rates in effect at the time of ordinance adoption including the base tax rate, the incremental tax rate, and special incremental tax rates. Rates reflective of adjustments made through Fiscal Year 1994-95 by the authority of Ordinance 2016.
December 5, 2011	City Council adopted Ordinance No. 2370 , approved by the voters at the November 8, 2011 election (Measure M)	<ul style="list-style-type: none"> Increased base tax rate effective July 1, 2012, July 1, 2013, and July 1, 2014. Adjusted incremental tax rate amount based on business type. Adjusted maximum tax amount. Established formula for calculating automatic adjustments beginning in 2015.

ATTACHMENT C

San Mateo County Cities Considering Revenue Measures for 2024

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 to 75 cents per thousand dollars of gross receipts, and 2) Increase maximum payment or cap to \$500K
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.

ATTACHMENT D

Outreach Meetings for Revenue Measure: April – July 2024

Group/Meetings	Dates	Location
Small Business Roundtable – 1 st meeting	April 23, 10am	City Hall
Housing Providers	April 30, 12pm	City Hall
Residential Brokers	May 7, 10am	City Hall
Commercial Brokers	May 9, 3pm	City Hall
Small Business Roundtable – 2 nd meeting	May 15, 11am & 12pm	City Hall
Car Dealerships	May 17, 9am	City Hall
Affordable Housing Developers	May 21, 10am	Virtual
Advisory Boards, Commissions, and Committees (BCCs), Neighborhood Association Leaders, & Former City Council Members	May 22, 6pm	Community Activities Building
Large Business (Tech)	May 23, 11:30am	City Hall/Hybrid
Large Business (Life Science)	May 28, 9am	City Hall/Hybrid
Large Business (Retail)	May 28, 11am	City Hall/Hybrid
Large Business (Professional Services)	May 28, 1:30pm	City Hall/Hybrid
Large Business (Property Owner/Developer)	May 28, 3:30pm	Library/Hybrid
Port of Redwood City	June 13, 10am	City Hall/Hybrid
Community Collaborative for Children’s Success	June 17, 12-1:30pm	Fair Oaks Community Center
Library, Parks, and Arts Support Groups	June 20, 5:30pm	VETS Sunset Room/Hybrid
Fun after 50 (Seniors)	June 25, 11am-12pm	Senior Center
Small Business Roundtable – 3 rd meeting	July 9, 1pm	City Hall

City staff also met or had conversations with approximately 25 individuals who were either unable to attend one of the group meetings, or preferred to meet in a more private setting.