



City of Palo Alto

Finance Committee Staff Report

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Report Type: Action Items

Meeting Date: 8/20/2019

Summary Title: Evaluation and Discussion of Potential Revenue Generating Ballot Measures

Title: Evaluation and Discussion of Potential Revenue Generating Ballot Measures

From: City Manager

Lead Department: Administrative Services

Recommendation

Staff recommends that Finance Committee conduct a review and provide comments regarding, but not limited to, the following topics:

- A. The type(s) of tax measures that staff should continue to focus on, in terms of analysis and research;
- B. Evaluation and articulation of the types of tax structure, such as potential exemptions (beyond those legally required), and flat rate versus tier pricing structures;
- C. Major characteristics of a potential tax, such as a phase-in of a new tax, both implementation period as well as rate phase-in, or sunset provision ending the tax after a certain period; and
- D. Discuss the potential uses of taxes.

Executive Summary

This memorandum outlines and transmits significant information and analysis regarding three different types of taxes – General Obligation Bond, Parcel Tax, Business Tax – as requested by the Finance Committee in June 2019. As outlined in the original workplan to explore potential revenue generating potential ballot measures, this is intended to be an iterative process. This report is the second in providing increasingly detailed and complex analysis as the Finance Committee and City Council review options and refine the potential path forward. It is structured to provide a summary of information already provided and prior direction, a brief overview of the types of ballot measures and the requirements of them for approval including research and observations on local revenue measures from the last two elections in November and June of 2018. Then it is separated by each of the potential tax measures providing the legal parameters, administrative needs, equity in tax structure and economic implications and volatility. This additional information and more thorough modeling are all intended to assist in informing a future policy decision of the City Council. For each measure a high-level summary of the information presented is below:

General Obligation Bond: The City of Palo Alto last utilized this measure for the investments in the City's libraries. Currently property owners in the City have an assessment for this as well as additional assessments by the Palo Alto Unified School District (PAUSD). Staff modeled scenarios ranging from \$100 million in debt issuance to \$500 million in debt issuance and these would require 2/3 voter approval.

Parcel Tax: This report models two potential units of measure for a parcel tax structure: a flat rate or a rate by square footage. It may not be structured as an assessment based on a property's assessed value. Based on rates of either a flat \$350 per eligible parcel, or a \$1 per square foot per eligible parcel, this measure could generate between \$7 million and \$25 million in annual revenues (assuming no exemptions, no tiered rate structure, and no industry specific rates). For context a \$25 million revenue source would be the City's fourth largest tax generator, falling just below Transient Occupancy Tax (\$29.3 million annually) and Sales Tax (\$34.3 million annually). Parcel Taxes typically require 2/3 voter approval.

Business License Tax: The City of Palo Alto does not currently have a business license tax. The Finance Committee focused future additional staff work on three possible units of measurement for a potential tax including employee headcount, square footage, or payroll. Staff received assistance from a consultant firm to complete extensive benchmarking of business taxes in various jurisdictions which is included in this report. Depending on the tax rate, revenues are modeled to potentially generate \$1 million to \$16.5 million annually. Business Taxes may be a general (majority voter approval) or a special (2/3 voter approval) measures.

Next steps in this process will be to continue to review and discuss with the Finance Committee, City Council and stakeholders, narrowing the focus of further staff analysis so that more complex scenarios can be modeled including adjusting for any potential exemptions in addition

to the legally mandated ones, more analysis on different pricing levels and structures, and implications on parties and industries that would be assessed an increased or new tax. Once the focus of further staff analysis is narrowed, this will allow for analysis and discussion of implications such as potential areas of tax leakage and impacts on the economic environment and tax ecosystem.

Background

The City of Palo Alto has explored a number of revenue generating measures historically and as part of the 2019 Fiscal Sustainability Council Priority workplan, the Council has asked staff to continue these pursuits.

The 2019 Fiscal Sustainability workplan seeks to ensure providing ongoing services while maintaining finances at a credible and serviceable position with a long-term balance of resources and the cost of doing business. Specifically, components approved by the City Council were elements M and N of the workplan:

Analysis of revenue generating options, and develop a plan for a business tax proposal, including reform of the business registry through implementation of a business license program.

The full 2019 Fiscal Sustainability workplan, approved by the City Council, can be found here:

www.cityofpaloalto.org/civicax/filebank/documents/70506

Staff subsequently provided a specific workplan to address these components of the 2019 Fiscal Sustainability workplan, specifically, regarding revenue generating measures and a potential business tax proposal. This workplan was approved by a majority of the City Council (6-1) and can be found here:

www.cityofpaloalto.org/civicax/filebank/documents/70507

This workplan identified the Finance Committee as the public body to review periodic progress reports, allow for structured public discussion, and provide feedback and recommendations on the review and development of a potential ballot measure or other revenue generating strategy. Ultimately, the Finance Committee would recommend a preferred revenue generating proposal(s) for City Council action. This is the first report as part of this workplan which outlines an iterative process.

In June 2019, staff and the Finance Committee completed the first step in the revenue generating measures and a potential business tax proposal workplan with the transmittal and discussion of potential measures. This report included a detailed description of the various taxes the City of Palo Alto collects, some general information about the taxes and the drivers for them, and lastly potential revenue increases that could be seen if the tax rates were changed, or a new tax was imposed. The modeling of these potential tax rate changes demonstrated revenue estimates based on discrete basic assumptions and math. As discussed with the Committee, it is anticipated that these figures will only be reduced based on additional variables, exemptions, or changes in the base and more refined estimates will be provided later

this year. At this meeting the Committee aided in narrowing the more refined analysis of staff to three types of tax measures – General Obligation Bonds, Parcel Taxes, and various Business Taxes. Though ultimately not included, there was some discussion and desire to potentially continue to include a Sales Tax measure as well.

In addition, in consultation with the City’s current sales tax consultant, the Committee agreed to the use of a framework to help think through potential measures, E.A.S.E.:

EQUITY	Who does the tax impact and how is the impact felt across all residents or businesses in the same industry?
ADMINISTRABILITY	How is the tax administered and what would be the cost of compliance on taxpayers and the City?
STABILITY	What are the drivers of the tax revenue and how does the tax type in question affect the volatility of the revenue over time (including potential recessionary or modernization scenarios)?
ECONOMIC BENEFITS	Is the tax efficient, promotes economic development objectives and minimize disruption on the taxpayer?

The original Finance Committee report can be found here:
www.cityofpaloalto.org/civicax/filebank/documents/72101

Discussion

On June 18, 2019, staff received direction from the Finance Committee to provide information and model various revenue generating options:

- General Obligation Bond (GO Bond)
- Parcel Tax
- Business Tax: Employee Head Count; Square Footage; Payroll Expense

Staff research focused on past election results; legal restrictions and concerns; a high-level, estimated range of revenue the tax will generate; the City’s and comparable agencies’ employment and industry trends, and other relevant information that may be of value to the Finance Committee and stakeholders. The E.A.S.E. framework is discussed under each revenue measure type so that these principals can be considered as policy decisions are considered during the process.

As outlined in the June 2019 presentation, cities can assess taxes, however changes to establish new taxes or increase existing taxes must be approved by the voters in accordance with Proposition 218.

A general tax is a tax that is levied by a general-purpose government and is expended on any program, service, or capital need, at the discretion of the local government’s governing body. A simple majority vote (50 percent of voters plus one additional voter) is required for approval of a general tax. Non-property related taxes which cities and counties are authorized to levy may be imposed as a general tax.

A special purpose tax is dedicated to a specific purpose, including a special tax for a specific purpose that is deposited into a city’s general fund, and requires a 2/3

supermajority vote. Taxes levied on property, excluding ad valorem but including parcel taxes, are considered special taxes.

Election timing for the City of Palo Alto, a charter city, is governed by the City Charter. The City’s charter stipulates the November of each even-numbered year as the regular and general election. For a general tax, the measure must be placed on the same ballot as a general election of City Council members.

To understand the recent election trend for local revenue measures, staff reviewed June and November 2018 measures that were placed on the ballot and reviewed non-school measures that passed or failed. Election details, summarized in a table format, can be found in the attached *Summary Tables for Election Results (Attachment A)* of this report.

In November 2018, there were 548 measures on the ballot, of which 386 were local tax measures (Chart 1, below). The 386 measures included 258 measures (Chart 2, below) for non-school tax measures of which 200 were proposed by or for cities. One notable difference was the large number of cannabis tax measures (77); in 2017 and 2016 there were 7 and 38 cannabis measures, respectively.

CHART 1:

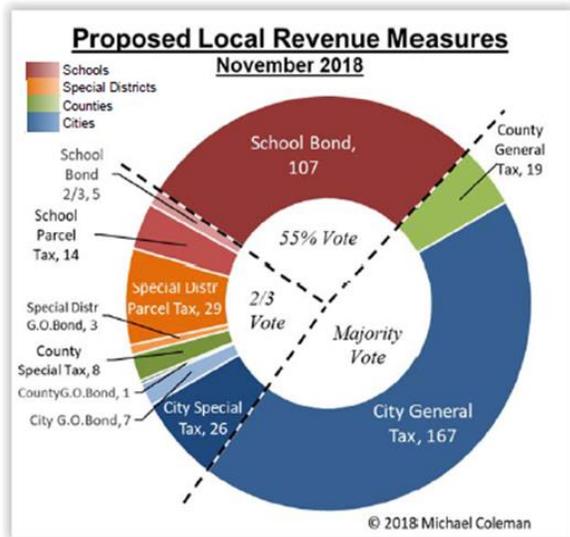
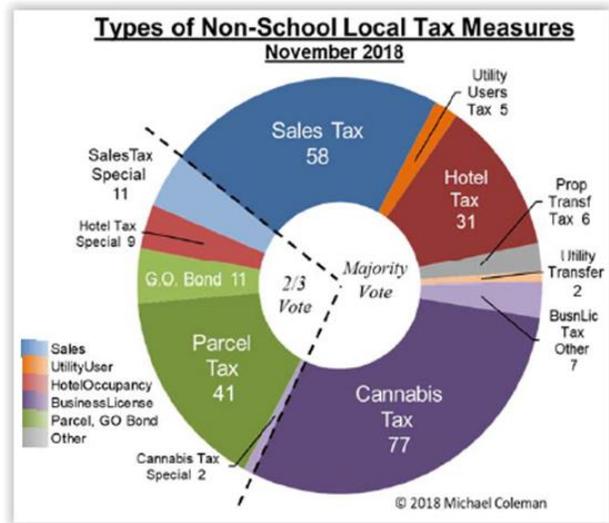


CHART 2:



Source: CaliforniaCityFinance.com – December 2018 (www.californiacityfinance.com/Votes1811final.pdf)

General Obligation (GO) Bond

A common form of long-term capital project financing is the General Obligation (GO) bond. Cities can only issue GO bonds to pay for the acquisition and improvement of real property (California Constitution Article XIII A). Under Article XIII C of the State Constitution, City GO bonds require a favorable two-thirds supermajority vote of the registered voters that vote on the measure. For California cities, GO bonds are secured by a promise to levy ad valorem property taxes (property taxes based on the value of the property) in an unlimited amount as necessary to pay debt service. Voters approve the maximum amount of debt (bonds) that can be issued. The ad valorem taxes levied to pay debt service on city GO bonds are in addition to the 1 percent general ad valorem property tax. Although the California Constitution was modified in 2000 through the enactment of Proposition 39 to allow schools, community colleges, and county education offices, under defined circumstances, to have a 55 percent popular vote threshold, City GO bonds still require a two-thirds favorable vote.

Generally, based on assessed values (AV), approximately two-thirds or more of a GO Bond assessment is paid by residential parcels and one-third by businesses/commercial parcels. In the City of Palo Alto. While GO bonds can be issued for different lengths of time, the most common are 30-year bonds with 40 years being the maximum maturity duration. The City of Palo Alto has issued GO bonds for library and school infrastructure improvements. The City's net library bond issuance of \$71 million currently adds \$10.62 per \$100,000 in AV to each property owner's tax bill, or about \$106 per year for a residence appraised at \$1,000,000. This is based on FY 2020 secured property tax AV of \$37.3 billion and unsecured property tax AV of \$1.9 billion.

The below table reflects a range of potential GO bond issuance size, an initial assessment rate for \$1 million in AV for residential/commercial properties and the unsecured property taxes and potential annual debt service payments. The term "unsecured" refers to business personal property that can be relocated and is not real estate (e.g. aircraft, boat and machinery and equipment, etc.).

TABLE 1: POTENTIAL GO BOND ISSUANCE AMOUNT

POTENTIAL GO BOND ISSUANCE AMOUNT	Residential/Commercial (Rate for \$1 M in Assessed Value/Yr)	Unsecured Property (Rate for \$1 M in Assessed Value/Yr)	Estimated Annual Debt Service
\$100M	\$178	\$203	\$ 6.6 million
\$200M	\$356	\$406	\$13.2 million
\$300M	\$533	\$608	\$19.8 million
\$500M	\$888	\$1,012	\$32.9 million

Note: the above tax rates will be re-calculated annually based on the annual debt service and the City's total AV. Historically, the AV increases annually while the debt service remains stable resulting in the GO Bonds' tax rates declining.

The below table addresses the E.A.S.E. principals outlined previously.

EQUITY	Though the GO Bond tax rate is applied uniformly against the property's Assessed Value (AV), due to Proposition 13, properties that have changed ownership will have a higher AV and GO Bond tax burden than those properties that haven't.
ADMINISTRATION	The County of Santa Clara charges 0.25 percent to administer the assessment collection via the annual property tax bill so a \$100M bond issuance with a \$6.6M annual debt service payment will incur \$16,500 in annual county's collection administrative fee. Considerable cost and staff resources would be incurred associated with the actual bond(s) issuance and ongoing staff time would be necessary to manage the debt service and bond covenant requirement for the bond duration (e.g. 30 years) and the annual GO Bond tax rate calculation which is submit to the county.
STABILITY	Very stable with low volatility even during a recession.
ECONOMIC BENEFITS	A GO Bond mirrors the current assessment and weight of the baseline 1% property tax assessment. Both administratively and to taxpayer who is assessed the ad valorem levy is the same as the baseline tax structure, therefore, minimal disruption administratively anticipated, however, inequities associated with current regulations such as Proposition 13 as referenced above may disproportionately impact certain owners.

The Bay Area GO Bond measures considered in June and November 2018 elections had mixed results, though the majority passed, a few did not. In November 2018, there were eleven non-school GO Bond measures totaling \$2.4 billion. Five passed and a total of \$1.3 billion in local non-school GO Bonds were issued (**Attachment A, Table A2**). In June 2018 (**Attachment A, Table A3**), there were three local non-school GO Bond measures and two of those measures passed, both cities in the Bay Area. Though the overall passage rates in the last two elections were high (**Attachment A, Table A1**), the passage rates for measures for school GO Bonds is higher, 86 percent, than City, 62 percent.

Parcel Tax

In California, local agencies (e.g. city, school and community college district, etc.) are authorized to impose parcel taxes which require a two-third supermajority vote approval for specified purposes. For cities, parcel taxes are subject to limitations under Government Code Section 50075 et seq.

Though it had been accepted law that a special (parcel) tax required a 2/3 vote under Article XIII A, Section 4, a recent court case's ruling has created uncertainty. In *California Cannabis Coalition vs City of Upland*, the California Supreme Court ruled that voter initiatives are not subject to the same requirements as ballot measures put on the ballot by public agencies with respect to the timing of the election. In reliance on *California Cannabis*, a trial court in San Francisco recently upheld a ballot measure for a gross receipts tax for homeless services that received only a majority approval from voters but had been placed on the ballot by initiative. The long-term implication of this ruling is not clear.

Parcel taxes are levied on a property owner's property tax bill and may be a specific amount (that may escalate) or it can be based on a factor such as building square footage. The most common type of parcel tax is a fixed amount, identical for all parcels regardless of use, size, or value, and may have a sunset provision. Per California Article XIII A, Section 4, special taxes (like parcel taxes) cannot be ad valorem (based on the value of property). A parcel tax can be approved for a set period (e.g., 10 years) or can be permanent.

Fixed amount parcel taxes if applied to all property owners equally typically require owners of smaller or lower valued property to pay the same amount as owners of larger or higher valued property and therefore are referred to as regressive. A fixed parcel tax is different from an ad valorem property tax, in that it is imposed on a per-parcel basis and is not based on the AV of the property.

A parcel tax based on square footage if applied to all property owners would be more equitable on the properties that it applies to (also referred to as "progressive") as it would require owners of properties to pay based on the size. However, this structure would most likely result in a more complex administration of the tax. As discussed in prior reports, in November 2018 the City of East Palo Alto passed a parcel tax based on square footage (\$2.50 per square foot) that only applies to commercial office space that is over 25,000 square feet. This limits the scope of impacted parcels that meet this criterion and in theory, limits the complexity of administration, however, also limits the revenue generated.

In general, properties exempt from the general 1 percent ad valorem (property) tax are exempt from parcel taxes. In addition, there is a separate statute in the Government Code for school district parcel taxes (Gov. Code Section 50079 et seq.) and it differs from the more general parcel tax authority in Section 50075 et seq: (1) the school district law requires a tax that applies uniformly to all taxpayers and (2) the school district law specifically allows certain exemptions:

1. Persons who are 65 years of age or older.
2. Persons receiving Supplemental Security Income for a disability, regardless of age.
3. Persons receiving Social Security Disability Insurance benefits, regardless of age, whose yearly income does not exceed 250 percent of the 2012 federal poverty guidelines issued by the United States Department of Health and Human Services.

Though the above exemptions don't apply to city parcel taxes, it may be possible to include specific exemptions like these to the extent it is concluded that the exemption is reasonable based on the purposes of the tax. Further research by the City's Bond Counsel would be necessary on this based on specific exemptions that Council and/or staff are interested in exploring.

The following table shows the City’s property breakdown by land use. For example, based on the following data, a fixed \$350 parcel tax on 20,087 parcels that can be taxed would generate \$7 million in annual revenue. Potential revenue from an alternative methodology, such as a tax measure based on commercial square footage is described below.

TABLE 1:
Property by Land Use
Estimated Revenues Based on Fixed Tax Rate of \$350 Per Taxable Parcel

	FY 2018				Parcel Tax Revenue
	# Parcels	% of Parcels	Assessed Value (AV)	% by AV	
Properties Subject to Parcel Tax					
Agricultural	26	0.1%	\$ 15,136,270	0.05%	\$ 9,100
Commercial	405	1.9%	1,875,346,761	5.8%	141,750
Manufacturing	55	0.3%	669,193,035	2.1%	19,250
Professional	550	2.6%	5,011,938,010	15.5%	192,500
Industrial	111	0.5%	1,162,901,625	3.6%	38,850
Sub-total - Commercial	1,147	5.4%	\$ 8,734,515,701	26.9%	\$ 401,450
Residential	18,940	89.9%	23,319,460,730	71.9%	6,629,000
Sub-total - Properties Subject to Parcel Tax	20,087		32,053,976,431	98.8%	\$ 7,030,450
Properties Exempt From Parcel Tax					
Forest	23	0.1%	17,527,823	0.1%	n/a
Institutions (e.g. schools, hospitals, etc.)	75	0.4%	69,911,145	0.2%	n/a
Public (gov't, cemeteries, mortuaries, etc.)	363	1.7%	50,962,757	0.2%	n/a
Recreational (parks, playfields, etc.)	15	0.1%	45,587,009	0.1%	n/a
Social (churches, clubs, etc.)	54	0.3%	4,522,615	0.0%	n/a
Transportation (utly, bus, truck, streets, etc.)	18	0.1%	7,539,575	0.0%	n/a
Other (vacant, public, non-profits, etc.)	436	2.1%	178,266,617	0.5%	n/a
Sub-total - Not Subject to Parcel Tax	984	4.7%	374,317,541	1.2%	n/a
Grand Total	21,071		\$ 32,428,293,972	100.0%	n/a

A parcel tax measure based on commercial square footage can have a simple structure like East Palo Alto’s and/or a more complex tax structure based on types of properties (e.g. office, retail, industrial, etc.). The following table, based on CoStar data, is for discussion purpose only; it’s not to suggest and/or to provide a potential parcel tax structure. It shows potential annual revenues, by property type, based on a \$1 rentable building area per square feet parcel tax. Based on the Committee’s feedback and/or direction, staff can return with specific tax structure(s) and their potential revenues. Detail for this table can be found in **Attachment B**.

**TABLE 2: POTENTIAL PARCEL TAX REVENUES
BASED ON RENTABLE BUILDING SQUARE FEET (\$1 PER SQUARE FOOT)**

PROPERTY TYPE	Rentable Bldg. Area (Square Feet)	Estimated Annual Revenue (\$)
HOSPITALITY	1,366,278	\$1,366,278
INDUSTRIAL	2,453,992	\$2,453,992
OFFICE	13,304,877	\$13,304,877
RETAIL	4,010,544	\$4,010,544
FLEX BUILDING	4,640,212	\$4,640,212
GRAND TOTAL	25,775,903	\$25,775,903

***EXCLUDES: GOVERNMENT, SCHOOL, PARKING GARAGE/LOT, RELIGIOUS FACILITY,
LODGING/MEETING HALL, SELF-STORAGE, CONTRACTOR STORAGE YARD, CAR WASH,
SHELTER, AND THEATER/CONCERT HALL.***

Compared to GO Bond Measures, in the June and November 2018 elections, the approval for City parcel tax measures is slightly better, with 75 percent passing in June 2018 and 83.3 percent passing in November 2018 (**Attachment A, Table A4**). In June and November 2018, there were 62 parcel tax measures with 34 or 54.8 percent passing. For City only tax measures, 81.3 percent passed. In addition, of the 13 school parcel taxes 10 or 76.9 percent passed (**Attachment A, Tables A5 and A6**). As for the sunset provision for parcel tax measures in the last three elections, most school ballot measures had them while, in a given election year, only a third to less than half of non-school measures had them.

TABLE 3: PARCEL TAX VARIABLES & E.A.S.E.

	PARCEL COUNT	SQUARE FOOTAGE
EQUITY	For fixed (per parcel tax), results in owners of smaller or lower valued property to pay the same amount as owners of larger or higher valued property.	A rentable building square feet tax aligns the tax with both the size and potentially the property types it's assessed on which would be considered more progressive.
ADMINISTRATION	Further research is needed to understand the full administration cost for a parcel tax. What is known are as follows: (1) the University Avenue parking assessment bonds are consider a parcel tax for which the County of Santa Clara's administrative cost is 1 percent of the levy; (2) depending on the tax structure, the county might have a \$16 per parcel cost which is far more expensive than the 1 percent of levy fee; staff's working with the county to understand when this is applicable. There likely will be an annual consultant cost to prepare and submit the parcel tax assessment to the county. If these revenues are used to issue bonds, then there will be costs associated with a bond's issuance and on-going management similar to the GO Bond issuance.	
STABILITY	Very stable with low volatility.	Very stable with low volatility.
ECONOMIC BENEFITS	Economic development implications of a flat, parcel tax would depend on any policy choices for exemptions. However, as noted in the discussion, a flat tax would be regressive as it does not scale to size or another unit of measure.	This method could be tailored to promote certain economic development objectives; however, the selected exemptions or varying tax rate scales could result in unanticipated complexities that would make the tax difficult to administrate.

Business Tax Overview and Consultant Study

California law allows cities the ability to tax businesses for the privilege of conducting business in a city. The business license tax can be structured in a variety of ways, including based on the number of employees (sometimes referred to as a "head tax"), based on payroll, gross receipts, or square footage and it may be levied at a flat or tiered rate. Most cities in the state have some form of a business tax.

The City can consider any tax that is not arbitrary in its application or otherwise prohibited by state law or the constitution. For businesses that conduct business in multiple jurisdictions, the city's business license tax can only be applied to the portion of business transacted in the city. Business tax measures follow the same voter thresholds for a general tax or special tax and could be proposed as either.

Some businesses and occupations are exempt from local business taxation under state or federal law; these include non-profit or charitable organizations (e.g., non-profit hospitals), banks and other financial institutions that pay the state in-lieu tax, small residential care

facilities, and small home childcare facilities. This list is not exhaustive or exclusive. The City can include other exemptions (e.g., small business, limited duration activity) in addition to the exemptions required under state or federal law in a proposed tax measure.

Staff reviewed election results for cities in the Bay Area (Santa Clara County, San Mateo County, City and County of San Francisco, Alameda County, Contra Costa County, and Marin County) for business license tax measures in the past five years, that did not specifically target a type of business (such as landlords, parking lots, warehouses, sugary drinks, gaming, cardrooms, gambling, soil recycling and recycling). Over the past five years, general use business tax measures, which require a simple majority vote, have passed at the polls (**Attachment A, Table A7**).

Over the past 10 years, there were a handful of examples of business tax measures in the Bay Area that did not pass. An example of a failed business tax measure was in November 2014 for the City of Milpitas (Measure E) that targeted licensed gaming establishments. Measure E would have allowed the City to tax licensed gaming establishments 10.5 percent on gaming revenues. According to Ballotpedia.org, the following business tax measures in the Bay Area, that did not target a specific business type and failed on the ballot were in November 2009 for the City of Redwood City (Measure Y, business tax increase) and City of Palo Alto (Measure A, to establish a business tax). City of East Palo Alto voters passed Measure O (a general tax) in November 2016 by simple majority which, in addition to the City's business license tax assessed on the business community at-large, added a landlord business license tax to the City's overall business tax structure.

The City engaged Matrix Consulting Group (Matrix) to conduct research that will assist in development of a potential business license tax. The scope of the engagement included

- comparative research of selected Bay Area communities to understand each agency's business license tax practices regarding the development, implementation, and administration of each program; and
- to perform data analysis and modeling, based on available data resources, of the potential revenue range the City may generate if a business license tax measure were to be approved by the voters.

Comparative agencies were selected based on a few general criteria: proximity to Palo Alto, business community and population size, business industry environment, and Bay Area agencies that have brought business license tax measures to the ballot in the last few years. 2017 data from the U.S. Census was used to compare Palo Alto's industry environment to selected comparable agencies. The Business License Tax Program Comparative Assessment and Revenue Projections report (Consultant Study, **Attachment C**) completed by Matrix, indicates that according to U.S. Census Data for 2017, Palo Alto's business environment is comparable to the selected agencies, where professional and healthcare services are the top industry types.

The U.S. Census data, however, includes business conducted in Stanford, which is primarily business in the education and healthcare segments and depending on location, these businesses would not be subject to a Palo Alto Business License Tax.

TABLE 4: EMPLOYMENT BY INDUSTRY

INDUSTRY	Cupertino	East Palo Alto	Mountain View	Redwood City	San Francisco	San Jose	San Mateo	Santa Clara	Sunnyvale	Palo Alto
PROFESSIONAL	29%	6%	23%	14%	22%	13%	15%	21%	27%	25%
INFORMATION	7%	3%	13%	5%	6%	4%	5%		8%	8%
MANUFACTURING	22%	7%	13%	8%	4%	16%	9%	19%	20%	13%
EDUCATION	7%	8%	9%	9%	7%	8%	8%	8%		14%
HEALTHCARE	9%	12%	9%	11%	11%	12%	11%	9%	15%	11%
RETAIL	7%	12%	7%	10%	9%	9%	9%	8%		5%
HOSPITALITY	3%	14%	6%	7%	9%	8%	9%	6%	6%	5%
ADMINISTRATIVE		11%	3%	6%	4%	5%	6%			2%
CONSTRUCTION	2%	8%	3%	7%	3%	6%	5%	3%		1%

Professional, scientific and technical services is the largest industry segment in the City of Palo Alto. To further validate the U.S. Census data and to review average number of firms, employees and employee wages, the City obtained data from the California Employment Development Department (EDD) which excludes businesses located at Stanford. Please see the “Employment and Wages by Northern American Industry Classification System (NAICS) Code from EDD Data” table on p. 39 in the Consultant Study for detail of the City’s 2018 number of firms, employment, total annual wages, and average employee wage, organized by Industry NAICS code. Please note that data for some industry types are suppressed from the report due to EDD’s confidentiality and disclosure restrictions. Although grand totals for number of firms, employment, and annual wage is included in the report, information for an industry is redacted if the industry category 1) has less than five reported business in that industry and 2) one business comprises 80 percent or more of the total for the industry.

According to the EDD data, the City of Palo Alto has:

Approximately 942 professional, scientific, and technical firms (NAICS code 54), or 22 percent of total reported businesses, within the City that are dedicated to this industry type. Healthcare and social assistance and other services (excluding public administration), are the second and third largest industries totaling 854 firms (20 percent) and 495 firms (12 percent), respectively.

The average employee wage data (which includes regular salary, bonuses, and sometimes stock option income) is also telling of the type of employment market within

the City. The highest paid industries in the City are finance and insurance, averaging approximately \$307 thousand per employee; information, averaging \$296 thousand per employee; and management of companies and enterprises, averaging \$242 thousand per employee.

In 2018, there was an average of 103,921 employees within City limits (excluding Stanford). Of those employees, 97,350 were non-government employees. This data is presented in the Consultant Report and the verified data from InfoGroup was used to calculate the employee head count revenue estimate.

Agency demographic information that was examined in the Consultant Study included

- population,
- number of businesses;
- business tax structure;
- whether the tax is general or specific;
- total revenue generated and percent total of General Fund revenues;
- business tax revenue generated compared to total agency full-time equivalent (FTE) as a benchmark unit of measure;
- exemptions in addition to those specified in State or Federal law;
- sunset of the tax;
- annual escalator; and
- whether the tax is administered in-house or by an outside firm.

Of the agencies selected for comparison, all agencies approved ongoing taxes (no sunset provisions) and the tax is administered in-house. Each agency had varying types of tax exemptions and methods of an annual escalator for the tax. The table below summarizes the demographic and business license tax information for each selected agency and how each compare to Palo Alto. Five out of the nine selected agencies use employee head count as the tax method and all but one agency, East Palo Alto, is a general tax.

TABLE 5: CITY DEMOGRAPHIC & BUSINESS TAX GENERAL & FINANCIAL INFORMATION

CITY	POPULATION	# OF BUSINESSES	THREE LARGEST INDUSTRIES	TAX METHOD	GENERAL OR SPECIAL TAX	REVENUE / % GENERAL FUND	REVENUE PER FTE
CUPERTINO	60,777	3,800	Professional Manufacturing Healthcare	Square Foot	General	\$0.8M, 1%	\$4,344
EAST PALO ALTO	29,765	1,527	Hospitality Healthcare Retail	Gross Receipts	Specific	\$1.2M, 4%	\$10,239
MOUNTAIN VIEW	81,438	3,700	Professional Information Manufacturing	Employee Count	General	\$6.0M, 4%	\$9,438
REDWOOD CITY	86,685	6,275	Professional Healthcare Retail	Employee Count	General	\$2.6M, 2%	\$4,757
SAN FRANCISCO	884,363	242,000	Professional Healthcare Hospitality	Gross Receipts; Payroll	General	\$820.0M, 9%	\$26,469
SAN JOSE	1,035,000	58,000	Manufacturing Professional Healthcare	Employee Count	General	\$72.2M, 6%	\$11,259
SAN MATEO	104,748	7,486	Professional Healthcare Retail	Gross Receipts	General	\$5.9M, 5%	\$8,659
SANTA CLARA	127,134	13,000	Professional Manufacturing Healthcare	Employee Count	General	\$0.9M, 0.5%	\$823
SUNNYVALE	152,389	7,875	Professional Manufacturing Healthcare	Employee Count	General	\$1.8M, 1%	\$2,027
PALO ALTO	66,649	5,496	Professional Healthcare Manufacturing	N/A	N/A	N/A	N/A

TABLE 6: BUSINESS TAX EXEMPTIONS BY AGENCY

CITY	STATE EXEMPTIONS		LOCAL EXEMPTIONS			
	Non-Profit	Charitable Organizations	Public Utility	Small Business	Disabled Veteran	Low Income Rental Units
CUPERTINO	✓	✓				
EAST PALO ALTO	✓	✓				
MOUNTAIN VIEW	✓	✓	✓			
REDWOOD CITY	✓	✓	✓		✓	
SAN FRANCISCO	✓	✓		✓		
SAN JOSE	✓	✓		✓		✓
SAN MATEO	✓	✓			✓	
SANTA CLARA	✓	✓				
SUNNYVALE*	✓	✓	✓		✓	

* BANKS AND OTHER FINANCIAL INSTITUTIONS THAT PAY THE STATE IN-LIEU TAX ARE EXEMPT FROM A LOCAL BUSINESS TAX. THE CITY OF SUNNYVALE EXEMPTS ALL BANKS AND FINANCIAL INSTITUTIONS FROM THE LOCAL BUSINESS LICENSE TAX.

On June 18, 2019, staff received direction from the Finance Committee to model three types of business tax models: employee head count, square footage, and payroll. In addition to these structures, staff was directed to examine potential exemptions, in addition to those legally exempted, to provide the Committee with information to make informed policy decisions for the tax. The below discussion summarizes the results of the business license tax modeling as presented in the Consultant Study.

TABLE 7: ESTIMATED BUSINESS TAX ANNUAL REVENUE*

HEAD COUNT	\$3.6M using City of Mountain View’s rates
SQUARE FOOTAGE	\$1.0M to \$3.2M using City of Cupertino’s rates
PAYROLL	\$15.5M to \$16.5M assuming 0.1% of total payroll expense

*REVENUE ESTIMATES INCLUDE EXEMPTED BUSINESS CATEGORIES PER STATE AND FEDERAL LAW, SUCH AS NON-PROFIT AND CHARITABLE ORGANIZATIONS.

Business Tax: Employee Head Count

Fundamentally, the employee head count business tax model applies a tax rate based on the number of people a business employs within the City’s boundaries. The tax rates are commonly separated into ranges and the tax is applied based on how many people are employed by the business. In our survey of comparative agencies, employee head count is the most common business tax structure and, perhaps the simplest form business tax model.

For purposes of a headcount business tax structure, establishing a definition for an “employee” will be the foundation of this tax and can be defined as any person who works for, under the direction of, on behalf of, or as an agent of a business owner. Amidst the growing trend of non-traditional employment structures (i.e. outside consultants, employees working from sites

outside of City boundaries) in information and professional services industries, establishing the definition and criteria of an employee and setting a tax around such definition will be critical.

Staff recognizes that there a wide range of datasets which identify number of employees citywide, with varying conclusions of the total number of employees in the City of Palo Alto. Several reasons may be the cause of this – inclusion of businesses located in Stanford proper, various definitions of an employee, confidentiality parameters, or how the data is collected (self-reported, mandated, audited, etc.) – just to identify a few. Site based employment headcount and wage data, in total, is available from the EDD. Staff has previously presented employee head count totals from the American Community Survey, which totaled 97,000. InfoGroup is another data set that was utilized in the City Auditor’s Office most recent audit of the Business Registry Certificate Program. The revenue estimates presented in the Consultant Report are modeled using the verified database from InfoGroup. The verified data from InfoGroup provided the most detailed information by firm at this time.

<p>EQUITY</p>	<p><i>Palo Alto’s top three industry types for average employee head count are healthcare/social assistance, professional, and information.</i></p> <p>This tax model would directly relate revenue to the daily phenomena of the influx of daytime population within the City’s boundaries and tax this activity as such.</p> <p>Equity concerns within the same type of industry are to be determined, however, businesses that are labor driven and have lower average wages will be bear a higher tax based on employee head count and such as tax will not correlate to the business’ ability to pay. Examples of these industries are manufacturing, retail, social assistance, and food service/hospitality.</p>
<p>ADMINISTRATION</p>	<p>Establishing criteria that sets the definition of an employee should be included so that businesses are able to accurately report data and remit tax.</p> <p>Self-reported employee head count by the business owner would be the simplest method of administering this tax, however there is a higher risk that data is reported incorrectly.</p> <p>An alternative is to use data from the EDD and assess the tax based on this data. Data on firm size is currently being generated by the EDD. The recently passed business tax measure in Mountain View, Measure P, calculates the tax based on the employee count form the last four quarters submitted to the EDD.</p> <p>Structure for this tax model should define whether headcount related to from alternative employment models should be included or not be included in the assessment.</p>
<p>STABILITY</p>	<p>Tax revenue driver is directly related to how many businesses are in the City and the number of employees at each business. Depending on the policy is developed and how the tax definitions are written, the basis will be impacted</p>

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as companies transition to alternative employment models (i.e. outside consultants, employees working from offsite locations outside of City boundaries), which is becoming a trend in consulting and high-tech companies. Administration of the tax is simple if based on number of employees at a site address, which is already reported by businesses to the EDD on a quarterly basis; results in minimal operational disruption to the tax payor. Implications of economic development goals would be dependent on the specific structure, potential exemptions, and business classifications

Of the nine selected comparison agencies, five of the cities used employee head count as the tax method. Although total employee count for each selected agency could not be readily obtained as of the drafting of this report, below is a summary table of those agencies, similar to the table presented in the Business Tax Overview section of this report, that includes the number of businesses, tax method, exemptions, total generated revenue, and revenue per FTE:

TABLE 8: EMPLOYEE HEAD COUNT AGENCIES

CITY	# OF BUSINESSES	TAX METHOD	EXEMPTIONS	REVENUE	REVENUE PER FTE
MOUNTAIN VIEW	3,700	Base tax plus tiered incremental rate (scaled increase)	Public Utility	\$6.0M	\$9,438
REDWOOD CITY	6,275	Base tax plus flat tax based on employee or business type	Public Utility Veteran	\$2.6M	\$4,757
SAN JOSE	58,000	Tiered incremental rate (scaled decrease)	Small Business Low-Income Rental Units	\$72.2M	\$11,259
SANTA CLARA	13,000	Tiered flat rate (scaled increase) or flat; has cap		\$0.9M	\$823
SUNNYVALE	7,875	Tiered incremental rate (scaled increase)	Public Utility Veteran	\$1.8M	\$2,027

Generated tax revenue compared to City FTE was used as a benchmark to compare each agency’s business license tax. The cities of Redwood City and Santa Clara both use employee count as the tax method and while Redwood City generates \$2.6 million and has approximately half the number of business firms compared to City of Santa Clara, Redwood City generates three times the amount of business license tax revenue compared to Santa Clara. The driver of this difference is that Redwood City’s employee count model incrementally increases based on number of employees, where Santa Clara’s model is a flat tax.

The City of Sunnyvale also uses the employee head count model and, in addition to businesses that often times are exempt or receive preference from a grant perspective (such as non-profits, residential care facilities, or Veteran-operated businesses), Sunnyvale exempts banks and financial institutions and insurance brokers-agents. Like Redwood City, but unlike Santa Clara, Sunnyvale uses an incremental employee count model as opposed Santa Clara’s flat tax

model. This results in approximately \$1.8 million in annual revenue and \$2,027 in tax revenue per FTE.

City of San Jose is the largest agency, for both population and number of businesses, that uses the employee head count model. It is also the only agency that was reviewed that encourages large business by using a tiered model where the tax rate is incrementally scaled down as the business has more employees and has a total maximum cap that can be collected per year.

Business Tax: Square Footage

The square footage business tax model commonly calculates the tax based on a tiered square footage range. There are several options of how a square footage tax can be structured by either applying a single square footage rate, depending on which tier the business falls under; a flat tax based on tier; or a combination of a flat tax and square footage rate. The rates can be structured to either benefit or penalize certain commercial space sized businesses.

Real estate market analytic tools are available for purchase and provide dependable, real-time, census information that can be used as a tool for administration, regulation, and revenue forecasting purposes. The Consultant Study used verified InfoGroup data to perform tax revenue modeling and also reviewed data from CoStar, a real estate market analytical tool which categorizes commercial property into several categories (distribution/manufacturing, healthcare, hospitality, industrial, office by class, retail, specialty, and sports/entertainment) and into various subcategories. Data from CoStar (**Attachment B**) also discloses whether the commercial space is owner occupied, leased, or sub-leased. These lease arrangements should be considered when structuring, administering, and regulating this tax model. Matrix found that the data from InfoGroup appeared to have the largest population of reported businesses within its “verified” roster.

EQUITY	<p>If industries within the City require an average square footage that is similar to the business’ competitors, the tax burden would fall equally among businesses in the same industry.</p> <p>This tax model would place heavier tax burden on industries that require larger square footage to operate, such as manufacturing.</p>
ADMINISTRATION	<p>The source of compliance data would be an actively maintained and updated third-party real estate database.</p> <p>Whether the commercial space is owner occupied, leased, or sub-leased, how regulation is administered, and allocation of the tax is administered by the property owner or the City should be addressed and clarified in the tax language.</p> <p>Examples of complex areas in this tax structure are common areas, shopping centers, franchises and how a business may define their company’s site(s).</p>
STABILITY	<p>Tax is assessed on commercial square footage and, although some exemptions can be made to encourage certain industries to expand in the City, overall</p>

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revenue growth using this model will be limited based on policy decisions related to commercial space in the City.

This tax model would appear to inhibit square footage growth, however depending on how the tax is structured, this model has the potential to encourage growth for targeted industries and/or business sizes and/or property types.

Of the nine selected agencies in the Consultant Study, the City of Cupertino was the only agency that used the square footage tax method for a business tax. It should be noted as discussed earlier in this report that the City of East Palo Alto recently approved a parcel tax based on a commercial square foot metric.

TABLE 9: SQUARE FOOTAGE AGENCY

CITY	# OF BUSINESSES	TAX METHOD	EXEMPTIONS	REVENUE	REVENUE PER FTE
CUPERTINO	3,800	Flat base rate plus tiered incremental rate (scaled decrease)	Non-Profits	\$0.8M	\$4,344

Cupertino considered a November 2018 ballot measure to restructure the City’s business license tax, which was enacted in 1992, however it was decided to defer the proposed tax restricting plan to the November 2020 election. The proposed structure would shift Cupertino’s business license tax from square footage to employee head count, which is consistent with most agencies selected in the Consultant Study. According to the City of Cupertino’s website, restructuring the business license tax would generate approximately \$10 million annually and would fund the City’s transportation infrastructure and traffic congestion programs.

Business Tax: Payroll Expense

Using payroll data as the basis for a business tax is similar to the methodology of an employee headcount structure. Relevant data can be accessed through the EDD and the sensitivity of the tax resets on the composition of employees in the data but instead of the focus being the volume of employees, the focus is on how much employees earn. Based on data from the EDD, approximately half of the City’s job market is in high wage sectors including information and professional services. Based on the City’s business environment and economy, a tax structure based on payroll earnings would result in a progressive tax that relates the amount of tax paid by the business to the ability to pay the tax.

In considering the payroll tax model, the definition of wages should be detailed enough to determine the type of pay that should be included in the calculation of the tax. The policy choice of including earnings aside from regular wages such as overtime, commission, allowances, bonuses, stock options, and/or cash fringe benefits, should be considered when structuring the payroll tax model.

EQUITY	<p>Wage data will include bonuses and sometimes stock options, which can drastically vary across industries and within sub-categories of an industry.</p> <p>Based on the industry data from EDD, the higher wages are in professional services industries which indicates the average employee wage is higher than manufacturing, retail, social assistance, and food service/hospitality industries.</p>
ADMINISTRATION	<p>Similar to a business tax based on employee headcount, the simplest form of administration would be self-reported by the business owner, however there is a risk that data is reported incorrectly.</p> <p>Data from the EDD can validate and support regulation of this tax structure.</p> <p>Similar to the employee headcount tax model, the payroll tax model will be impacted as companies transition to alternative employment models. Structure for this tax model should define how wages for such employees are included in the tax.</p>
STABILITY	<p>Tax revenue driver is directly related to how many businesses are in the City and the average employee wage. According to data from the EDD, high wage sectors in the City are information, financial activities, and professional services which is comprises half of the City's employment base.</p>
ECONOMIC BENEFITS	<p>Administration of the tax is simple if based on wages of employees at a site address, which is already reported by businesses to the EDD on a quarterly basis; results in minimal operational disruption to the tax payor. Depending on structure, this model has the potential to encourage growth for targeted industries and/or business sizes and/or employee types.</p>

The City and County of San Francisco was the only city of the nine selected in the Consultant Study that uses the payroll expense tax method to assess the City's business license tax. Prior to the November 2012 election, San Francisco used the payroll expense tax as the City's tax method and was the only city in California to use the payroll expense tax method. The gross receipts method was approved by voters in November 2012, with implementation beginning 2014 over a five-year period. The Consultant Study details the structure for both the gross receipts method and payroll expense method. The table below illustrates San Francisco's payroll expense tax method.

TABLE 10: PAYROLL EXPENSE AGENCY

CITY	# OF BUSINESSES	TAX METHOD	EXEMPTIONS	REVENUE	REVENUE PER FTE
SAN FRANCISCO	884,363	Payroll phase-out over 5 years: 1.35% to 0% by end of 2019	Small Businesses	\$820.0M	\$26,469

In November 2018, a gross receipts tax initiative (Proposition C) to fund homelessness services was approved and has been challenged arguing that the proposition was a special tax and required supermajority (2/3) voter approval to pass. It was determined by the San Francisco

Superior Court that since the Proposition was put on the ballot through a citizen initiative, although the proposed tax was dedicated for a specific purchase, passage required a simple majority vote (50 percent, plus 1) to pass.

Other Variables to Consider

In addition to the variables specific to each tax, below are some, but not all additional variables to consider when weighing the types, timing, purpose, and structure of a potential ballot measure.

Financing options: Should revenues be intended for significant capital investments resulting in needed financing mechanisms, the implications on debt may be important. Types of debt that can be issued are GO, Certificate of Participation (COP), and revenue bonds.

For GO Bonds, based upon the assessed valuation of \$34.4 billion for the fiscal year ending June 30, 2018, the City is limited to general obligation indebtedness of \$1.2 billion per State law. As of June 30, 2018, the amount of debt applicable to the debt limit is \$62.4 million so \$1.19 billion in addition GO debt can be issued.

COPs require a physical collateral (e.g. land, building, vehicles, etc.) so this debt is limited to the amount of General Fund assets available and can be pledged as collateral.

Revenue bonds require the dedication of a specified revenue source as collateral, so this debt is limited to the amount of stable revenue source available. Since these bonds are relying on a particular revenue stream, they are considered higher risk than GO bonds and therefore have a higher risk for higher borrowing costs.

Another consideration is the potential credit rating impact. The City's has been a low debt issuer so the credit rating agencies have favorably evaluated the City for this; should that change it may lead to a credit rating downgrade which will result in higher future borrowing costs.

Outstanding legal challenges, competing measures, and environmental awareness: As referenced earlier, several discussions are occurring throughout the state and locally that may impact tax rates and regulations surrounding voter initiatives. Examples of these may include voter initiatives such as a change to the Proposition 13 regulations, regional tax measure to assist in regional funding needs (such as county or Bay Area needs), and the current litigation following *California Cannabis Coalition vs City of Upland* referenced earlier. In addition, once the focus of further staff analysis is narrowed, this will allow for more awareness around environmental implications such as potential areas of tax leakage and impacts on the economic environment and tax ecosystem.

Potential uses of the tax: The City currently has several investments it may wish to allocate additional resources towards. Those discussed at previous meetings include but are not limited to investments in grade separation at the four railroad crossings, investment in the Cubberley

facility, increased support for affordable housing, investment in various community benefits such as the recently approved parks master plan or other assets such as the ROTH building, and investment in transportation improvements and programs. The intended use of the max may be helpful in consideration of a tax structure, who the tax is assessed on and if it is a one-time investment versus and ongoing program need.

Timeline

As outlined in the original workplan, staff anticipate an iterative process as the Finance Committee and the Council evaluate potential revenue generating measure. It is expected that after this meeting, staff will return to the City Council to review current progress and analysis and confirm next steps. The workplan stipulates polling and stakeholder outreach to be completed when ready and appropriate. Ultimately, the current workplan outlines a decision by October/November on the core attributes of what type of measure to pursue including the major variables for it to be based on.

Resource Impacts

The 2019 Fiscal Sustainability workplan identified this project as one that was not resourced by either staffing or consultant funding. Therefore, no resources are currently allocated for this effort. It is anticipated that staff will bring forward with future City Council reports on this subject a recommended appropriation of additional one-time funds at minimum for consultant assistance both completed by Matrix consulting as well as potentially future polling and/or citizen engagement. Current consulting costs to date are estimated at \$50,000.

Environmental Review

This report is not a project for the purposes of the California Environmental Quality Act (CEQA). Environmental review is not required.

Attachments:

- Attachment A: Election Result Tables
- Attachment B: Potential Parcel Tax Revenue
- Attachment C: Matrix Consultant Report

Attachment A
Summary Tables for Election Results

TABLE A1: LOCAL REVENUE (REVENUE/TAX) MEASURES RESULTS

	NOVEMBER 2018			JUNE 2018			TOTAL FOR JUNE AND NOV.		
	Total	Pass	Passing %	Total	Pass	Passing %	Total	Pass	Passing %
CITY GENERAL TAX (MAJORITY VOTE)	167	153	92%	18	17	94%	185	170	92%
COUNTY GENERAL TAX (MAJORITY VOTE)	19	14	74%	10	7	70%	29	21	72%
CITY SPECIAL TAX (MAJORITY VOTE)	-	-		1	1	100%	1	1	100%
CITY SPECIAL TAX OR G.O. BOND (2/3 VOTE)	33	20	61%	9	6	67%	42	26	62%
COUNTY SPEC.TAX, G.O. BOND (2/3 VOTE)	9	6	67%	2	-	0%	11	6	55%
SPECIAL DISTRICT	32	14	44%	18	9	50%	50	23	46%
SPECIAL DISTRICT (MAJORITY VOTE)	-	-		1	1	100%	1	1	100%
SCHOOL PARCEL TAX (2/3 VOTE)	14	11	79%	11	10	91%	25	21	84%
SCHOOL PARCEL TAX (MAJORITY VOTE)	-	-		1	1	100%	1	1	100%
SCHOOL BOND (2/3 VOTE)	5	3	60%	2	-	0%	7	3	43%
SCHOOL BOND (55% VOTE)	107	92	86%	38	33	87%	145	125	86%
TOTAL	386	313	81%	111	85	77%	497	398	80%

SOURCE: CALIFORNIA CITY FINANCE.COM – DECEMBER 2018

([HTTP://WWW.CALIFORNIA CITY FINANCE.COM/VOTES1811FINAL.PDF](http://www.californiacityfinance.com/votes1811final.pdf)) AND JUNE 2018 REPORT

([HTTP://WWW.CALIFORNIA CITY FINANCE.COM/VOTES1806FINAL.PDF](http://www.californiacityfinance.com/votes1806final.pdf))

**Attachment A
Summary Tables for Election Results**

TABLE A2: GO BOND ELECTION RESULTS – NOVEMBER 2018

AGENCY NAME	COUNTY	MEASURE	AMOUNT	TAX	PURPOSE	YES %	PASS/ FAIL
SAN FRANCISCO	San Francisco	Measure A	\$425 million	\$13/100k	Earthquake Facilities / Infrastructure	82.0%	Pass
BERKELEY	Alameda	Measure O	\$135 million	\$23/\$100k	Housing	77.5%	Pass
SAN JOSE	Santa Clara	Measure T	\$650 million	\$11/100k	Earthquake Facilities / Infrastructure	69.0%	Pass
FAIR OAKS RECREATION AND PARK DISTRICT	Sacramento	Measure J	\$26.9 million	\$19/100k	Parks/ Recreation	68.9%	Pass
CAMPBELL	Santa Clara	Measure O	\$50 million	\$19/100k	Police EOC, Library, etc.	68.0%	Pass
MILLBRAE	San Mateo	Measure II	\$12 million	\$8.70/100k	Recreation Center	62.2%	Fail
SANTA ROSA	Sonoma	Measure N	\$124 million		Housing / Homeless	61.7%	Fail
SAN JOSE	Santa Clara	Measure V	\$450 million	\$29/100k	Housing	61.6%	Fail
ANTELOPE VALLEY HEALTHCARE DISTRICT	Los Angeles	Measure H	\$350 million	\$28/100k	Hospital	61.5%	Fail
COUNTY OF SANTA CRUZ	Santa Cruz	Measure H	\$140 million	\$17/100k	Housing	54.7%	Fail
TEHACHAPI VALLEY RECREATION AND PARK	Kern	Measure R	\$43 million	\$39/100k	Parks/ Recreation	32.5%	Fail

SOURCE: CALIFORNIACITYFINANCE.COM – DECEMBER 2018
[\(\[HTTP://WWW.CALIFORNIACITYFINANCE.COM/VOTES1811FINAL.PDF\]\(http://www.californiacityfinance.com/votes1811final.pdf\)\)](http://www.californiacityfinance.com/votes1811final.pdf)

TABLE A3: GO BOND ELECTION RESULTS – JUNE 2018

AGENCY NAME	COUNTY	MEASURE	AMOUNT	TAX	PURPOSE	YES %	PASS/ FAIL
FOSTER CITY	San Mateo	Measure P	\$90 million	\$40/\$100k	Flood / Levee	81.0%	Pass
EMERYVILLE	Alameda	Measure C	\$50 million	\$49.12 / \$100k	Affordable Housing	72.1%	Pass
CLAREMONT	Los Angeles	Measure SC	\$23.5 million	\$30.33 / \$100k	Police Station	57.9%	Fail

SOURCE: CALIFORNIACITYFINANCE.COM – JUNE 2018 REPORT
[\(\[HTTP://WWW.CALIFORNIACITYFINANCE.COM/VOTES1806FINAL.PDF\]\(http://www.californiacityfinance.com/votes1806final.pdf\)\)](http://www.californiacityfinance.com/votes1806final.pdf)

**Attachment A
Summary Tables for Election Results**

TABLE A4: HISTORY OF PARCEL TAX MEASURES

	Nov 2018			June 2018			Nov 2017		Nov 2016		June 2016	
	# of Measures	# Passing	% Passing	# of Measures	# Passing	% Passing	# of Measures	% Passing	# of Measures	Passing %	# of Measures	% Passing
City	12	10	83.3%	4	3	75.0%	1	0.0%	8	75.0%	4	100.0%
Special District	29	13	44.8%	17	8	47.1%	10	30.0%	31	54.8%	8	37.5%
Total Non-School	41	23	56.1%	21	11	52.4%	11	27.3%	39	59.0%	12	58.3%
Schools	13	10	76.9%	11	10	90.9%	2	50.0%	22	77.3%	7	100.0%
Grand Total	54	33	61.1%	32	21	65.6%	13	30.8%	61	65.6%	19	73.7%

TABLE A5: PARCEL TAX ELECTION RESULTS – NOVEMBER 2018

AGENCY NAME	COUNTY	MEASURE	AMOUNT	SUNSET	PURPOSE	YES %	PASS/ FAIL
EAST BAY REGIONAL PARK DISTRICT	Alameda/ Contra Costa	Measure FF	\$12/parcel	20 yrs.	Parks	86.6%	Pass
EAST PALO ALTO	San Mateo	Measure HH	\$2.50/sf commercial	none	Housing	79.2%	Pass
SLEEPY HOLLOW FIRE PROTECTION DISTRICT	Marin	Measure T	\$80+/parcel	4 yrs.	Fire / EMS	78.0%	Pass
ROSS	Marin	Measure P	\$80+/parcel	4 yrs.	Fire / EMS	77.9%	Pass
ALBANY	Alameda	Measure M	\$69/parcel	none	Park Open Space	77.8%	Pass
CORTE MADERA	Marin	Measure N	\$80+/parcel	4 yrs.	Fire / EMS	77.6%	Pass
KENTFIELD FIRE DISTRICT	Marin	Measure S	\$80+/parcel	4 yrs.	Fire / EMS	76.9%	Pass
FAIRFAX	Marin	Measure O	\$80+/parcel	4 yrs.	Fire / EMS	76.5%	Pass
SAN ANSELMO	Marin	Measure Q	\$80+/parcel	4 yrs.	Fire / EMS	73.6%	Pass
SOUTHERN MARIN FIRE PROTECTION DISTRICT	Marin	Measure U	\$200/parcel	none	Fire / EMS	73.4%	Pass

**Attachment A
Summary Tables for Election Results**

AGENCY NAME	COUNTY	MEASURE	AMOUNT	SUNSET	PURPOSE	YES %	PASS/FAIL
OAKLAND	Alameda	Measure W	\$6k/vacant Parcel	20 yrs.	Nuisance	70.0%	Pass
COUNTY SERVICE AREA NO. 27	Marin	Measure R	\$80+/parcel	4 yrs.	Fire / EMS	68.3%	Pass
LARKSPUR	Marin	Measure K	\$92+/parcel	4 yrs.	Fire / EMS	68.1%	Pass
OAKLAND INIT	Alameda	Measure AA	\$198/parcel	30 yrs.	Education	62.5%	Fail
RICHMOND	Contra Costa	Measure T	\$3k/Vac. Dev	20 yrs.	Homeless	60.2%	Fail

SOURCE: CALIFORNIACITYFINANCE.COM – DECEMBER 2018
[\(\[HTTP://WWW.CALIFORNIACITYFINANCE.COM/VOTES1811FINAL.PDF\]\(http://www.californiacityfinance.com/votes1811final.pdf\)\)](http://www.californiacityfinance.com/votes1811final.pdf)

TABLE A6: PARCEL TAX ELECTION RESULTS – JUNE 2018

AGENCY NAME	COUNTY	MEASURE	AMOUNT	SUNSET	PURPOSE	YES %	PASS/FAIL
OAKLAND	Alameda	Measure D	\$75/yr. Sq. Ft.	20 yrs.	Library	76.9%	PASS
ORINDA	Contra Costa	Measure J	By \$30 to \$69/yr.	none	Library	71.7%	PASS
CONTRA COSTA COUNTY SERVICE AREA	Contra Costa	Measure T	\$80+/parcel	4 yrs.	Fire / EMS	78.0%	PASS

SOURCE: CALIFORNIACITYFINANCE.COM – JUNE 2018 REPORT
[\(\[HTTP://WWW.CALIFORNIACITYFINANCE.COM/VOTES1806FINAL.PDF\]\(http://www.californiacityfinance.com/votes1806final.pdf\)\)](http://www.californiacityfinance.com/votes1806final.pdf)

**Attachment A
Summary Tables for Election Results**

TABLE A7: BUSINESS LICENSE TAX ELECTION RESULTS – JUNE & NOVEMBER 2018

MONTH/ YEAR	AGENCY	COUNTY	NAME / TAX TYPE	TYPE	RATE	YES %	PASS/ FAIL
NOV 2018	Daly City	San Mateo	Measure BB General	Gross Receipt	Incr tax by 0.05%, \$110 min/business	80.6%	Pass
NOV 2018	Mountain View	Santa Clara	Measure P General	Employee Headcount	\$8-\$49/empty	69.2%	Pass
NOV 2018	Sausalito	Marin	Measure M General	Gross Receipt	\$125/business; \$1- \$3/\$1,000	64.8%	Pass
NOV 2018	San Francisco	San Francisco	Proposition C Citizen	Gross Receipt	0.175%-0.69%	61.3%	Pass
NOV 2016	Berkeley	Alameda	Measure U1 General	Gross Receipt	2.88%	74.9%	Pass
NOV 2016	San Jose	Santa Clara	Measure G General	Employee Headcount	Incr base to \$195 & per empty tax; raise max cap to \$150K/yr	65.3%	Pass
NOV 2014	Antioch	Contra Costa	Measure O General	Gross Receipt	Confirmed & added landlord	50.9%	Pass

SOURCE: BALLOTPEDIA.ORG ([HTTPS://BALLOTPEDIA.ORG/BUSINESS TAXES IN CALIFORNIA](https://ballotpedia.org/business_taxes_in_california))

ATTACHMENT B
Potential Parcel Tax Revenues
Based on Rentable Building Square Feet

Property Type	Rentable Bldg. Area (Square Feet)	\$ 1.00 per Square Feet	Estimated Revenue (\$)
<u>Hospitality</u>			
Hotel	747,443	\$	747,443
Motel	404,656		404,656
Single Room Occupancy Hotel	185,479		185,479
Hospitality	28,700		28,700
Sub-total - Hospitality	1,366,278	\$	1,366,278
<u>Industrial</u>			
Food Processing	35,000	\$	35,000
Manufacturing	1,102,721		1,102,721
Refrigeration/Cold Storage	47,915		47,915
Service	266,398		266,398
Showroom	85,000		85,000
Warehouse	908,257		908,257
Industrial	8,701		8,701
Sub-total - Industrial	2,453,992	\$	2,453,992
<u>Office</u>			
Loft/Creative Space	43,363	\$	43,363
Medical	671,526		671,526
Office Live/Work Unit	10,737		10,737
Office/Residential	296,620		296,620
Office	12,282,631		12,282,631
Sub-total - Office	13,304,877	\$	13,304,877
<u>Retail</u>			
Auto Dealership	72,651	\$	72,651
Auto Repair	70,090		70,090
Bank	60,902		60,902
Convenience Store	2,259		2,259
Day Care Center	53,959		53,959
Department Store	372,878		372,878
Drug Store	53,759		53,759
Fast Food	18,755		18,755
Freestanding	1,111,448		1,111,448
Funeral Home	10,483		10,483
Garden Center	9,113		9,113
Health Club	48,510		48,510
Movie Theatre	15,644		15,644
Restaurant	216,724		216,724
Service Station	12,218		12,218
Storefront	872,853		872,853
Storefront Retail/Office	520,934		520,934
Storefront Retail/Residential	77,653		77,653
Supermarket	118,472		118,472
Retail	291,239		291,239
Sub-total - Retail	4,010,544	\$	4,010,544
<u>Flex Building</u>			
Light Distribution	219,919	\$	219,919
Light Manufacturing	619,751		619,751
R&D	3,272,935		3,272,935
Telecom Hotel/Data Hosting	109,710		109,710
Flex Building	417,897		417,897
Sub-total - Flex Building	4,640,212	\$	4,640,212
Grand Total	25,775,903	\$	25,775,903

Excludes: government, school, parking garage/lot, religious facility, lodging/meeting hall, self-storage, contractor storage yard, car wash, shelter, and theater/concert hall.

Business License Tax Program Comparative Assessment and Initial Revenue Projections

CITY OF PALO ALTO, CALIFORNIA



August 14, 2019

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1 Introduction and Executive Summary

The Matrix Consulting Group was retained by the City of Palo Alto to conduct research to assist the City with the potential development of a Business License Tax program. The scope of services included conducting comparative research and outreach on the program utilized by selected Bay Area communities to understand the prevailing practices regarding the development, implementation and administration of Business License Tax programs and to conduct data analysis and modeling, based on available data sources, the potential revenue that the City may receive if a Business License Tax program were implemented.

As part of the Matrix Consulting Group's study for the City of Palo Alto, the project team gathered information on the Business License Tax program of comparable jurisdictions. The survey gathered demographic, historical and structural information on the City and its tax. This document first presents the results of the comparative analysis conducted by the Matrix Consulting Group and concludes with initial projections to develop high level estimates of potential revenue realization.

1. PROJECT BACKGROUND AND INFORMATION

The analysis focuses on profiling each jurisdiction compared and presenting key findings that assess the approach to a Business License Tax by comparable jurisdictions. Based upon discussions with the City, the project team and the City arrived at nine comparable jurisdictions for inclusion in the comparative effort. The following jurisdictions were utilized: Cupertino, East Palo Alto, Mountain View, Redwood City, San Francisco, San Jose, San Mateo, Santa Clara, and Sunnyvale.

For each of the jurisdictions surveyed, the project team developed a profile of the business tax license program and examines the jurisdiction's demographic information such as population, employment data, revenue base and the number and type of businesses. The profile also includes background information on each jurisdictions Business License Tax and provides a breakdown of the tax parameters.

The project team utilized a variety of techniques in the development of this report including the following:

- **Researching business license tax program webpages:** The project team visited different webpages to determine the different aspects of the program.
- **Jurisdiction Outreach:** The project team also reached out to individual jurisdictions to determine any additional information regarding the business license information.

The results of this data gathering are presented in the following chapters.

2. SUMMARY OF KEY COMPARATIVE DATA

In conducting the comparative analysis, the project team collected various pieces of information related to the function and parameters of Business License Tax programs and their execution. The following tables shows key data points gathered for this comparative analysis:

Demographic Information

City	Population	# of Businesses
Cupertino	60,777	3,800
East Palo Alto	29,765	1,527
Mountain View	81,438	3,700
Redwood City	86,685	6,275
San Francisco	884,363	242,000
San Jose	1,035,000	58,000
San Mateo	104,748	7,486
Santa Clara	127,134	13,000
Sunnyvale	152,389	7,875
Palo Alto	66,649	5,496

Business License Tax General Information

City	Business License Type	Special or General Tax	Year Adopted
Cupertino	Square Foot	General	1992
East Palo Alto	Gross Receipts	Specific	2016
Mountain View	Employee Count	General	2018
Redwood City	Employee Count	General	1990
San Francisco	Gross Receipts; Payroll	General	2011
San Jose	Employee Count	General	2016
San Mateo	Gross Receipts	General	1976
Santa Clara	Employee Count	General	2003
Sunnyvale	Employee Count	General	1976

Business License Tax Financial Information

City	Actual Business License Revenue	Total Municipal FTEs	Revenue Per FTE	BLT Revenue as % of Total General Fund Revenue	Revenue Per Business
Cupertino	\$876,000	201.75	\$4,344	1%	\$230
East Palo Alto	\$1,175,000	114.75	\$10,239	4%	\$769
Mountain View	\$6,000,000 ¹	635.75	\$9,438	4%	\$1,621
Redwood City	\$2,628,000	564.36	\$4,757	2%	\$427
San Francisco	\$820,000,000	30,960.48	\$26,469	9%	\$3,388
San Jose	\$72,200,000	6,412.60	\$11,259	6%	\$1,244
San Mateo	\$5,940,000	685.94	\$8,659	5%	\$793
Santa Clara	\$915,000	1,111.25	\$823	0.5%	\$70
Sunnyvale	\$1,840,000	907.96	\$2,027	1%	\$233

Business License Tax Details

City	Exemptions	Sunset	Annual Escalator	Revenue Use	Administration	Payable Online
Cupertino	No	No	Yes	General	In-House	Yes
East Palo Alto	Yes	No	No	Specific	In-House	No
Mountain View	Yes	No	Yes	General	In-House	No
Redwood City	Yes	No	Yes	General	In-House	Yes
San Francisco	Yes	No	No	General	In-House	Yes
San Jose	Yes	No	Yes	General	In-House	Yes
San Mateo	Yes	No	No	General	In-House	Yes
Santa Clara	Yes	No	No	General	In-House	No
Sunnyvale	Yes	No	No	General	In-House	Yes

Based upon the information in the table above and the analysis conducted in the report, the key takeaways are as follows:

- Approximately 56% of the jurisdictions surveyed utilize employee count as the primary methodology for calculating the Business License Tax.
- Four of the jurisdictions surveyed (Cupertino, Mountain View, Redwood City, and San Jose) utilize an annual escalator to adjust the tax.
- Eight of the nine jurisdictions use the revenue generated from the Business License Tax for general city purposes.

¹ Revenue estimated based on the November 2018 voter approved Measure P employee count-based tax structure

- All of the jurisdictions administer the Business License Tax in-house and two-thirds of jurisdictions allow business owners to pay the tax online.

As the points demonstrate, there are a variety of components to the Business License Tax program, including its administration, utilization, and usage. The following chapters provide further information and detail regarding these comparative factors.

2 Jurisdiction Profiles

Individual profiles of each jurisdiction were developed on each community's Business License Tax Program to document and highlight key aspects of the program. The jurisdictions were selected based on comparable characteristics and proximity to the City of Palo Alto and were approved by the City. The Fiscal Year 2018-2019 Adopted Budgets were used as the source for gathering financial data on each jurisdiction. The Population and Industry data collected are based on information provided by the US Census and utilize the most recent numbers available. Jurisdictions that are labelled as Full-Service cities are defined as providing all, or nearly all, public services, including utilities, public safety, public works, and leaving little to no reliance on the county or other jurisdictions for services. The following subsections discuss each of the jurisdictions surveyed as it relates to demographics, tax background, tax structure, and a summary.

1. Cupertino

The following subsections provides information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of the City of Cupertino.

1.1 Demographics

The City of Cupertino, California is located in Santa Clara County and has a population of 60,777. According to the annual budget, the City of Cupertino has 202 full-time equivalent positions across all departments. Cupertino offers little services limited to Public Works and Parks and Recreation. The City has approximately 3,800 businesses within its limits and generated \$876,455 of Business License Tax revenue in FY 2018-2019. Based on employment statistics, the largest industry within the City is Professional, Scientific, & Technical Services at 29.3%, followed by Manufacturing at 22.3%, then Healthcare with 8.52%.

1.2 Business License Tax Background

The City of Cupertino first adopted a Business License Tax in 1992, then later updated its structure in 2001 to increase the tax rate per square foot to the current rate. In 2018, the City of Cupertino attempted to update the business license tax structure to an employee-based method. The Council delayed the proposed license tax measure until 2020. The tax is codified under Title 5 Business License and Regulations Chapter 5.04 Business Licenses General.

1.3 Business License Tax Structure

The City of Cupertino utilizes a square footage methodology when calculating its Business License Tax. The table below summarizes Cupertino's business license tax model:

Cupertino Square Foot Tax

Square Foot Range	Tax Rate
0 - 5,000 sq. ft.	\$0.0397 per sq. ft.
5,001 – 25,000 sq. ft.	\$0.0346 per sq. ft.
25,001 – 75,000 sq. ft.	\$0.0300 per sq. ft.
75,001 – 100,00 sq. ft.	\$0.0247 per sq. ft.
100,001 – 150,000 sq. ft.	\$0.0197 per sq. ft.
150,001+ sq. ft.	\$0.0050 per sq. ft.

As indicated by the table above, the tax rate is calculated by taking the square footage of the business and multiplying it by the rate in the applicable size range. The tax structure utilizes an annual escalator, where the rates are adjusted 1.8% annually. The revenue generated is used for general purposes within the City and is placed in the General Fund.

1.4 Summary

The tax does not utilize a sunset clause and is available online for businesses to fill out and pay. According to the 2018-2019 adopted budget, the City of Cupertino generated \$876,455 in revenue from the tax, about 1% of the total General Fund revenue for the fiscal year. The tax program is administered in house by the city's Finance Division of the Administrative Services Department and dedicate 0.6 FTE to the Business License Tax program administration.

2. East Palo Alto

The following subsections provides information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of the City of East Palo Alto.

2.1 Demographics

The City of East Palo Alto, California is located in San Mateo County and has a population of 29,765. The City of East Palo Alto has 114.8 full-time equivalent positions across all departments in 2019. The City provides some services including Parks and Recreation, Police, and Library. The City has approximately 1,527 businesses within its limits and generated \$1,175,000 in revenue from the business license tax in FY 2017-2018. Based on employment statistics, the largest industry within the City is Accommodations at 14.2% of the market share, followed by Retail at 11.8% then Healthcare with 11.7% of employment market share.

2.2 Business License Tax Background

In November 2016, the City of East Palo Alto adopted an update to its Business License Tax Structure under Measure O, implementing a Gross Receipts based landlord tax. The tax is codified in the city's municipal code Title 5 Business Licenses and Regulations Chapter 5.04. In 2018, voters also passed a commercial office space parcel tax with a 79% majority that will impose an annual rate of \$2.50 per square foot on commercial office space over 25,000 square feet. This is estimated to raise an additional \$1,675,000 in revenue.

2.3 Business License Tax Structure

The Gross Receipts model adopted by the City of East Palo Alto that applies to most business activities is summarized in the table below:

East Palo Alto Gross Receipts Model

Annual Gross Receipts	Annual License Fee
\$0-\$999	\$50
\$1,000-\$100,000	\$125
\$100,001-\$250,000	\$250
\$250,001-\$500,000	\$500
\$500,001-\$10,000,000	\$1 for each \$1,000 of gross receipts
\$10,000,000	\$0.50 for each \$1,000 of gross receipts over \$10,000,001

East Palo Alto Other Taxes

Business Classification	Unit Tax
Administrative	\$1 for each \$1,000 of gross receipts
Construction Contractors	\$1 for each \$1,000 of gross receipts
Professional Sports Events	\$1 for each \$1,000 of gross receipts
Manufacturing	\$1 for each \$1,000 of gross receipts

Most businesses fall under a general category and pay an annual license fee that is based on the gross receipts of the business in that calendar year. Other specific business types, such as administrative, construction contractors, or professional sports events pay a specified rate that is based on various bookkeeping methods specific to that industry; however, they still utilize the gross receipts methodology. The model treats home occupation as a general business and taxes based on gross receipts. The City provides some exceptions to the tax that includes charitable organizations and a partial exemption for non-profit entities.

2.4 Summary

The tax was passed as a specific tax, meaning that the revenue must be used for a specific purpose and requires a two-thirds majority of voters in order to be implemented. The tax was implemented to provide additional funding for housing and homelessness initiatives. Based on the 2018-2019 adopted budget, the city generated approximately \$1,175,000 in revenue from the business tax or approximately 4% of the total revenue for the fiscal year. The program is administered by the city's Finance Department and does not allow for payment of the business license tax to be made online. There is no information in the budget relating to the number of dedicated FTE to the business license tax program.

3. Mountain View

The following subsections provides information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of the City of Mountain View.

3.1 Demographics

The City of Mountain View, California is located in Santa Clara County and has a population of 81,438. The City of Mountain View has 635.75 full-time equivalent positions across all departments in 2019. The City provides a variety of services including Police, Fire, Water, Sewer, and Parks and Recreation. The City has approximately 3,700 businesses within its limits, the largest of which is Google. Prior to the adoption of the revised employee count methodology in November 2018, the city was generating approximately \$252,000 in revenue from the tax, however the change in methodology is estimated to generate nearly \$6,000,000 in tax revenue per year. The largest industry category, based on employment, within the City is Professional, Scientific & Technical Services, holding 22.7% of the market, with Information and Manufacturing next at 13% each.

3.2 Business License Tax Background

In 1954, the City of Mountain View adopted a business license tax that is based on the square footage of a business. In November 2018, the current Business License Tax was adopted after being approved by voters and is codified in the City Code Chapter 18. The tax was submitted as a general tax, needing over 50% of voter approval to be passed, and went through a lengthy process prior to adoption.

The City set up focus groups, surveys and other outreach efforts over a year long process. The results of the outreach were then reviewed by a subcommittee that reviewed the information and made recommendations to City Council. In a survey conducted by the City consisting of over 900 voters, 62% indicated they would support the tax and feel businesses should pay their fair share to fix the problems they are partially responsible for. Council then approved the parameters of the tax and submitted it for the November ballot.

3.3 Business License Tax Structure

The City of Mountain View utilizes an employee count methodology of calculating Business License Taxes. The tax includes a flat tax rate, followed by a per employee rate that is based on the range of employees. The following table shows the license tax for based on business employee count:

Mountain View Employee Headcount Tax

Number of Employees	Base	Per Employee Rate
1	\$75	
2-25	\$75	\$5 per employee over 1
26-50	\$195	\$10 per employee over 25
51-500	\$445	\$75 per employee over 50
501-1,000	\$34,195	\$100 per employee over 500
1,001-5,000	\$84,195	\$125 per employee over 1,000
5,000+	\$584,195	\$150 per employee over 5,000

As indicated by the table above, the license tax rate applied is based on the number of employees the business has. The tax is calculated by adding the base rate by the per employee rate.

The head count tax is calculated based on the average employee count from the last four quarters as submitted to the state. The businesses must have a minimum of \$5,000 in gross revenue before the tax is applicable. Out of town businesses pay the same incremental tax rate based on the number of employees but the fee is prorated based on the average number of working days in the City during the calendar year.

3.4 Summary

The Mountain View tax code does not include a sunset clause, and only provides exceptions to non-profits, public utility companies and businesses with less than \$5,000 of revenue. The tax includes an annual escalator that is based on CPI adjustments and is subject to the annual fee resolution. Based on the 2018-2019 adopted budget, the City of Mountain View collected approximately \$252,000 in revenue. The total revenue collected from the Business License Tax makes up approximately 0.2% of the total General Fund revenue for the fiscal year. However, with potential updates under consideration, the City projects generating near \$6 million in revenue, increasing the percentage of Business License Tax revenue from 0.2% to 4% of total General Fund revenue if implemented.

The City's Finance & Administration Services Department administers the business license program in-house with 1 FTE dedicated. Businessowners do not have the ability to pay the tax online.

4. Redwood City

The following subsections provides information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of Redwood City.

4.1 Demographics

Redwood City, California is located in San Mateo County and has a population of 86,685. According to the 2018-2019 Adopted Budget, Redwood City has 564.36 full-time equivalent positions across all departments and generated \$2,685,012 in revenue from the business license tax. The City offers some services to the public including, Police, Water, Sewer, Parks and Recreation, and Library. The City has approximately 6,275 businesses within its limits. Based on employment statistics, the largest industry within the City is Professional, Scientific, & Technical Services at 14.3%, followed by Healthcare at 11.1% and Retail with 9.88%.

4.2 Business License Tax Background

Redwood City first adopted its Business License Tax in 1990 and was updated it in 2016 to specify additional business types that may not fall within the employee method. The City currently utilizes an Employee Count methodology in calculating the tax that varies based on business type. The tax is codified in Article V Business Licenses Section 32 of the City's code.

4.3 Business License Tax Structure

Redwood City adopted an employee count-based tax that increases incrementally based on the number of employees and is dependent on business type. The tax structure adds a \$68 Base Tax to a Unit Tax that is either incremental per employee tax or flat for specific business types, including rental units, Christmas tree lot sales, and Real Estate Brokerages. The following table shows Redwood City's Employee Count based Business License Tax structure:

Redwood City Employee Count Tax Structure

Business Type	Base Tax	Unit Tax
General	\$68	\$45.00 per employees + \$22.00 per part-time
Other:		
Residential Property Rental	\$68	\$25.00 per unit of dwelling space in excess of 3 units
Non-Residential Property Rental	\$68	\$25.00 per 1000 sq. ft. or fraction
Real Estate Brokerage	\$68	\$46.00 per salesperson or employee
Dance Hall Operator	\$68	\$678.00 flat annual

Business Type	Base Tax	Unit Tax
Vehicle Wrecking Facility	\$68	\$678.00 flat annual
Christmas Tree Lot Sales Operation	\$68	\$678.00 flat annual
Commercial Advertising	\$68	\$678.00 flat annual
Fortuneteller	\$68	\$678.00 flat annual
Junk Collector	\$68	\$678.00 flat annual
Pawnbroker	\$68	\$678.00 flat annual
Itinerant Vendor	\$68	\$46.00 per week
Solicitor/HA Wkers	\$68	\$46.00 per day
Peddlers	\$68	\$46.00 per person
Curb Painters	\$68	\$25.00 per day per person
Carnival Operator	\$68	\$564.00 per day
Coin-Operated Device Activity	\$68	\$13.00 per device
Vehicle Operation	\$0	\$68.00 per vehicle
Contracting	\$68	\$46.00 flat annual

As indicated by the table above, the Business Type is separated into two categories; General and Other. The other business types have a unit tax that is based on specific characteristics of the business type.

4.4 Summary

The program is administered in-house and the revenue collected from the tax is used for general purposes across the city. The tax structure has a built-in annual escalator and does not utilize a sunset clause. The code identifies charitable organizations, disabled veterans, and businesses exempt by the constitution, care facilities, home occupation, recreation instruction, and public utilities as exempt from the tax. Redwood City collected \$2,628,053 in revenue from the tax, approximately 2% of the total General Fund revenue for the fiscal year. Online forms of payment of the tax are accepted and the City's Administrative Services Department Finance and Revenue Services division administers and manages the program.

5. San Francisco

The following subsections provides information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of the City and County of San Francisco.

5.1 Demographics

The City and County of San Francisco, California has a population of 884,363. According to the annual budget, San Francisco has 30,960 full-time equivalent positions across all departments. San Francisco is a full-service jurisdiction, meaning that it provides all public

services, including, Police, Fire, Utilities (Electricity, Water, Sewer), Stormwater, Public Works, Parks and Recreation in addition to the services normally provided by cities.

The City has approximately 242,000 businesses within its limits. The largest industry, based on employment, within the city is Professional, Scientific & Technical Services, holding 21.7% of the market, Healthcare holding 11.3% of the employment market, and Hospitality with 9.04% of market share of employment.

5.2 Business License Tax Background

The City and County of San Francisco has the most complex Business License Tax procedure of the jurisdictions in the comparative. In 2017, the change in the business license tax structure lead to a legal question on whether a citizen's initiative is a tax imposed by local government. The California Supreme Court's decision in *California Cannabis Coalition v. City of Upland* concluded in a two-thirds majority that taxes imposed as citizen initiatives are separate from taxes imposed by local government. City and County officials argued that the court decision supported their imposition of the tax as a general tax, and therefore requiring only a simple majority. The tax was passed with 61% of voters indicating they are in favor of the tax.

The jurisdiction utilizes a gross receipts and payroll methodology when calculating its Business License Tax. The most recent update to the process was in 2014, where the payroll portion was implemented. As a result of the 2012 election and beginning 2014, the payroll tax methodology was phased-out over a five-year period and replaced by the gross receipts model. The adopted gross receipts rates increased incrementally from 10% to 100% over a five-year period, while payroll expense tax rates decreased from 1.35% to 0% in the same timeframe.

5.3 Business License Tax Structure

Businesses in San Francisco are required to pay a percentage of their annual gross receipts based on the range of gross receipts. Gross receipts are defined as the total amount of revenue received by a business, including sales, services, rent and advances services. The city levies a 0.38% payroll tax on all expenses to all businesses within the city whose annual payroll expense exceeds \$300,000. The following tables show the Payroll Expense Tax Rate formula used by the City to calculate the business tax amount:

Payroll Expense Tax Rate

$$\text{PAYRATE}_{18} = 0\% + \text{PADJ}_{18}$$

Payroll Expense Tax Rate Adjustment

$$\text{PADJ}_{18} = \text{MR}_{18} / (\text{PAYTAX}_{17} / \text{PAYRATE}_{17})$$

As indicated by the table above, the payrate is equivalent to the payroll tax rate adjustment factor. The payroll expense tax rate adjustment is equal to the missed rate

divided by the payroll expense tax rate of the previous year. The following table provides the formula to calculate missing revenue:

Missing Revenue (MR_{year})

$$\text{MR 18} = \text{ADM 17} + \$39,858,720 + \text{ER 17} - (100\%/75\%) \times \text{GRTAX 17} - \text{REG 17}$$

As shown in the table above, missing revenue is equal to ADM_{year}, an estimate of the additional expense incurred by the tax collector in administering the tax, plus \$39,858,720 plus the expected revenue of the amount of payroll tax subtracted by 100%/75% multiplies by the gross receipts tax revenue due for that year minus the business registration fee. The following tables provide examples of the gross receipts tax structure the city uses to calculate the tax:

Gross Receipts Tax Applicable to Professional Services

Tax Percentage	Gross Receipts Range	Rate
0.400%	\$0 to \$1,000,000	\$4 per \$1,000
0.460%	\$1,000,001 to \$2,500,000	\$4.60 per \$1,000
0.510%	\$2,500,001 to \$25,000,000	\$5.10 per \$1,000
0.560%	\$25,000,000+	\$5.60 per \$1,000

Gross Receipts Tax Applicable to Real Estate and Rental and Leasing

Tax Percentage	Gross Receipts Range	Rate
0.285%	\$0 to \$1,000,000	\$2.85 per \$1,000
0.285%	\$1,000,001 to \$2,500,000	\$2.85 per \$1,000
0.300%	\$2,500,001 to \$25,000,000	\$3.00 per \$1,000
0.300%	\$25,000,000+	\$3.00 per \$1,000

The gross receipts tax is calculated by taking the total number of gross receipts and finding the range it falls within, then multiplying the corresponding rate per \$1,000 of gross receipts. For example, if an insurance company reports gross receipts of \$3,000,000, the company's tax formula would be \$3.00 for every \$1,000 of gross receipts (\$3,000,000/\$1,000 x \$3.00) totaling \$9,000.

5.4 Summary

The code does not include a sunset clause and does not specify the usage of the tax revenue, meaning that the tax is considered to be a general tax. The business tax code exempts the tax if the organization is federally exempt from tax, an income tax exempt organization, or is a small business that collects less than \$1 million in gross receipts annually. According to the budget, San Francisco collected \$820,042,067 in revenue from the Business License Tax, approximately 9% of the total General Fund revenue for FY

2018-2019. There is no annual escalator built into the tax other than the five-year implementation plan previously outlined. Businessowners can pay the tax online as the program is administered in-house by the Office of the Treasurer and Tax Collector.

The City of San Francisco's gross receipts tax has been challenged by some members of the public in court after it passed in November 2018 where it received a majority of votes in favor. The court ruled that the tax was not imposed by a local government agency, but rather by the public; therefore, not requiring a two-thirds majority and subject to the limitations of a special tax.

6. San Jose

The following subsections provide information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of San Jose.

6.1 Demographics

The City of San Jose, California is located in Santa Clara County and has a population of 1,035,000. The City of San Jose has 6,413 full-time equivalent positions across all departments. San Jose is a full-service city, meaning that it provides all public services, including, Police, Fire, Utilities (Water, Sewer), Stormwater, Public Works, Parks and Recreation in addition to the services normally provided by cities. The City has approximately 58,000 businesses within its limits and generated \$72,200,000 in revenue from the business license tax in FY 2017-2018. Based on employment statistics, the largest industry within the City is Manufacturing at 14.2% of the market share of employment, followed by Professional, Scientific, & Technical Services at 13.1% then Healthcare with 11.6%.

6.2 Business License Tax Background

The City of San Jose utilizes an Employee Count methodology in calculating business taxes. The tax was most recently updated in July 2016 and is codified in Title 6 – Business Licenses and regulations Chapter 6. The process of executing the tax began when a “Notice of Circulation” was filed by two members of the public. The Notice of Circulation is an initiative giving notice of a submission to the electors at special election. The notice proposed a change to the city's business tax.

City Council responded to the notice and proceeded to approve the hiring of consultants to conduct a study with parameters set by City staff. In 2016, City Council approved the ballot language and proposed parameters and the tax was passed based on a majority of votes.

6.3 Business License Tax Structure

The City utilizes an Employee Count methodology that consists of a base rate plus an incremental tax based on the number of employees a business has. The tax has two major categories that effect the base and incremental tax rate; Business and Residential Landlord Rental Units. The table below outlines both major tax increments:

San Jose Business Tax

Range of Employees	Incremental Tax per Employee
1-2	\$200.85
3-35	\$31.80
36-100	\$42.40
101-500	\$53.00
501+	\$63.65

San Jose Residential Landlord Rental Units

Number of Employees	Incremental Tax per Employee
1-2	\$200.85
3-35	\$10.60
36-100	\$15.90
101-500	\$21.20
501+	\$26.50

The City places a rate dependent on the range of employees a business or residential landlord has. The business tax has a maximum of \$159,135 that it can collect from one single business in a year. The City also has a Commercial Rental Tax that has the same base rate as the Residential tax and charges \$0.0265 per square foot.

6.4 Summary

The City uses a Cost of Living Adjustment (COLA) that increases the cap of the rate between 1% to 3% annually to adjust for cost of living expenses. Based on the adopted budget from Fiscal Year 2018-2019, the City generated \$72,200,000 in revenue from its tax. Approximately 6% of the total General Fund revenue for the fiscal year is attributed to the business tax. The tax does not have a specified usage, making it a general tax, and only provides exception to low revenue generating businesses and low-income rental units. The business license program is administered internally by the Finance Department and does not specify the number of dedicated FTE to the program.

7. San Mateo

The following subsections provide information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of San Mateo.

7.1 Demographics

The City of San Mateo, California is located in San Mateo County and has a population of 104,748. According to the annual budget, the City of San Mateo has 686 full-time equivalent positions across all departments. San Mateo offers some services to the public including, Police, Water, Sewer, Library, and Parks and Recreation. Based on employment statistics, the largest industry within the City is Professional, Scientific, & Technical Services at 14.3%, followed by Healthcare with 11.1%, and Retail with 9.88%.

7.2 Business License Tax Background

The City of San Mateo adopted its business tax model in 1976 and utilizes a gross receipts methodology of calculating the tax. The tax is codified under Chapter 7.05 Business License Tax under the City's municipal code.

7.3 Business License Tax Structure

The City of San Mateo's Business License Tax model based on gross receipts determines the rate of the tax based on the gross receipts of a business. The following table shows the Business License Tax model for San Mateo:

San Mateo Gross Receipts

Gross Receipts	Tax Rate
Over \$750,000 and under \$5,000,000	\$0.30/1,000 Gross Receipts
Over \$5,000,000 and under \$10,000,000	\$0.25/1,000 Gross Receipts
Over \$10,000,000	\$0.20/1,000 Gross Receipts

San Mateo Other Business Tax

Business Classification	Base Tax	Incremental Tax
Administrative Headquarters	\$64	\$4.25 per employee
Billiards	\$64	\$32 per table
Contractor	\$160	
Gardener	\$80	
Manufacturing	\$64	\$4.25 per employee + gross receipts

Based on the gross receipts of the business that operates within the City, the tax rate is divided by 1,000 per gross receipts to calculate the tax. The City has a separate tax calculation for specific business classifications that includes a base rate plus an

incremental tax based on the specific business function. For example, Manufacturing business pay a \$64 base fee plus \$4.25 per employee plus the gross receipts schedule, however a Billiards business pays its tax based on the number of tables it uses. The incremental tax is designed to be specific to each business type, as there are unique businesses that may not have the gross receipts, or it is more difficult to track.

7.4 Summary

The City's Finance Department administers its business license program and utilizes the funds for general functions across the City. The code does not include an annual escalator and does not utilize a sunset clause and payment of the tax can be made online. The code outlines exemptions for non-profit organizations and disabled veterans. According to the 2018-2019 Adopted Budget, the City of San Mateo generated \$5,939,518 in Business License Tax revenue, making up about 5% of the total General Fund revenue for the fiscal year.

8. Santa Clara

The following subsections provide information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters of Santa Clara.

8.1 Demographics

The City of Santa Clara, California is located in Santa Clara County and has a population of 127,134. According to the annual budget, the City of Santa Clara has 1,111 full-time equivalent positions across all departments. Santa Clara offers a variety of services to the public including, Utilities (Electricity and Water) Sewer, Fire, Police, Parks and Recreation, and Library. The City has approximately 13,000 businesses within its limits. Based on employment statistics, the largest industry within the City is Professional, Scientific, & Technical Services at 20.5%, followed by Manufacturing at 19.3%, then Healthcare with 9.35%.

8.2 Business License Tax Background

The City of Santa Clara utilizes an Employee Count based business tax that was last updated in 2003. The tax is codified under Chapter 3.40 Business Tax.

8.3 Business License Tax Structure

The Employee Count model applies to a majority of the business types that operate with the City. The City has also adopted a flat tax that only applies to specific business types. The progressive employee count model applies to three general categories: Commercial

Employees, Professional Employees and Manufacturing Employees. The following table provides the Commercial Employee tax structure that is representative of the three types:

Santa Clara Commercial Employee Tax Structure

Number of Employees	Incremental Tax Per Employee
1	\$15
2	\$30
6	\$70
11	\$90
16	\$115
21	\$175
26	\$225
31	\$280
41	\$330
56	\$380
76	\$460
101+	\$500

Santa Clara Commercial Flat Tax

Business Type	Flat Tax
Carnival	\$150 per day
Detective Agency	\$150
Escort Service	\$150
Itinerant Merchant	\$225 (190-day maximum)
Peddler	\$113

The tax is determined by taking the number of employees in the company, finding what range the number falls within, and multiplying the number of employees by the incremental tax. The code also identifies specific types of businesses that do not fall under the three categories. Those categories are charged a flat tax that ranges from \$75 to \$400. Some examples of businesses that qualify for a flat tax include; detective agency, circus, fortuneteller, carnival, and escort service.

8.4 Summary

The code does not include an annual escalator and identifies the usage of the tax revenue collected to be for general purposes. Based on the FY 2018-2019 adopted budget, Santa Clara collected approximately \$950,000 in revenue from the tax, less than half a percent of the total revenue. The code identifies charitable organizations and non-profit entities to

be exempt from the tax and does not include a sunset clause. Payment of the business license tax can be made online and is administered in-house through the Finance Municipal Services Division with a total 29.20 FTE, however, the exact number dedicated to the program is unavailable.

9. Sunnyvale

The following subsections provide information regarding demographics, tax background, tax structure, and a summary of the Business License Tax parameters.

9.1 Demographics

The City of Sunnyvale is located in Santa Clara County and has a population of 152,389. The City of Sunnyvale has 908 full-time equivalent positions across all departments. Sunnyvale offers a variety of services to the public including, Water, Sewer, Fire, Police and Library. The City has approximately 7,875 businesses within its limits. Based on employment statistics, the largest industry within the City is Professional, Scientific, & Technical Services at 27.4%, followed by Manufacturing at 20.4%, then Healthcare with 14.8%.

9.2 Business License Tax Background

The City of Sunnyvale adopted a Business License Tax in 1968 and utilizes employee count as its methodology to calculate the tax business paid. The tax code was last updated in 2007 to include rental units and set a tiered system with caps on the tax that is to be paid for rental units and number of employees. The tax is codified in Title 5 Business Licenses and Regulations Chapter 5. On March 26, 2019, the City Council gave staff direction to evaluate options for the revision of the city's business license tax program.

9.3 Business License Tax Structure

The business license for the City of Sunnyvale is for a two-year period and is generally based upon the number of employees. The employee count method uses a formula to calculate the tax. This formula is based upon 2019 Tax + 2020 Tax + \$4.00 State CASp Fee. The CASp fee is a state mandated fee that is required as an attachment to all business license taxes in California, more information is provided in the following chapter. The tax amount for 2019 and 2020 is dependent upon the number of employees. The following table shows the detailed Business License Tax structure for Sunnyvale based upon the number of employees or rental units.

Business exempt from the license tax include: banks and financial institutions, charitable institutions and nonprofit organizations, for-hire motor carrier of property, home day care provider for eight or fewer children, insurance broker-agents, public utility franchise,

residential care facilities that serve six or fewer residents, and veteran-operated businesses that meet specific criteria.

# of Employees or Rental Units	2019 + 2020 + CASp	2019 Tax	2020 Tax	# of Employees or Rental Units	2019 + 2020 + CASp	2019 Tax	2020 Tax
1	\$81.15	\$38.26	\$38.89	481-485	\$12,645.04	\$6,188.60	\$6,452.44
2-5	\$134.32	\$63.80	\$66.52	486-490	\$12,775.36	\$6,252.40	\$6,518.96
6-10	\$264.64	\$127.60	\$133.04	491-495	\$12,905.68	\$6,316.20	\$6,585.48
11-15	\$394.96	\$191.40	\$199.56	496-500	\$13,036.00	\$6,380.00	\$6,652.00
16-20	\$525.28	\$255.20	\$266.08	501-505	\$13,166.32	\$6,443.80	\$6,718.52
21-25	\$655.60	\$319.00	\$332.60	506-510	\$13,296.64	\$6,507.60	\$6,785.04
26-30	\$785.92	\$382.80	\$399.12	511-515	\$13,426.96	\$6,571.40	\$6,851.56
31-35	\$916.24	\$446.60	\$465.64	516-520	\$13,557.28	\$6,635.20	\$6,918.08
36-40	\$1,046.56	\$510.40	\$532.16	521-525	\$13,687.60	\$6,699.00	\$6,984.60
41-45	\$1,176.88	\$574.20	\$598.68	526-530	\$13,817.92	\$6,762.80	\$7,051.12
46-50	\$1,307.20	\$638.00	\$665.20	531-535	\$13,948.24	\$6,826.60	\$7,117.64
51-55	\$1,437.52	\$701.80	\$731.72	536-540	\$14,078.56	\$6,890.40	\$7,184.16
56-60	\$1,567.84	\$765.60	\$798.24	541-545	\$14,208.88	\$6,954.20	\$7,250.68
61-65	\$1,698.16	\$829.40	\$864.76	546-550	\$14,339.20	\$7,018.00	\$7,317.20
66-70	\$1,828.48	\$893.20	\$931.28	551-555	\$14,469.52	\$7,081.80	\$7,383.72
71-75	\$1,958.80	\$957.00	\$997.80	556-560	\$14,599.84	\$7,145.60	\$7,450.24
76-80	\$2,089.12	\$1,020.80	\$1,064.32	561-565	\$14,730.16	\$7,209.40	\$7,516.76
81-85	\$2,219.44	\$1,084.60	\$1,130.84	566-570	\$14,860.48	\$7,273.20	\$7,583.28
86-90	\$2,349.76	\$1,148.40	\$1,197.36	571-575	\$14,990.80	\$7,337.00	\$7,649.80
91-95	\$2,480.08	\$1,212.20	\$1,263.88	576-580	\$15,121.12	\$7,400.80	\$7,716.32
96-100	\$2,610.40	\$1,276.00	\$1,330.40	581-585	\$15,251.44	\$7,464.60	\$7,782.84
101-105	\$2,740.72	\$1,339.80	\$1,396.92	586-590	\$15,381.76	\$7,528.40	\$7,849.36
106-110	\$2,871.04	\$1,403.60	\$1,463.44	591-595	\$15,512.08	\$7,592.20	\$7,915.88
111-115	\$3,001.36	\$1,467.40	\$1,529.96	596-600	\$15,642.40	\$7,656.00	\$7,982.40
116-120	\$3,131.68	\$1,531.20	\$1,596.48	601-605	\$15,772.72	\$7,719.80	\$8,048.92
121-125	\$3,262.00	\$1,595.00	\$1,663.00	606-610	\$15,903.04	\$7,783.60	\$8,115.44
126-130	\$3,392.32	\$1,658.80	\$1,729.52	611-615	\$16,033.36	\$7,847.40	\$8,181.96
131-135	\$3,522.64	\$1,722.60	\$1,796.04	616-620	\$16,163.68	\$7,911.20	\$8,248.48
136-140	\$3,652.96	\$1,786.40	\$1,862.56	621-625	\$16,294.00	\$7,975.00	\$8,315.00
141-145	\$3,783.28	\$1,850.20	\$1,929.08	626-630	\$16,424.32	\$8,038.80	\$8,381.52
146-150	\$3,913.60	\$1,914.00	\$1,995.60	631-635	\$16,554.64	\$8,102.60	\$8,448.04
151-155	\$4,043.92	\$1,977.80	\$2,062.12	636-640	\$16,684.96	\$8,166.40	\$8,514.56
156-160	\$4,174.24	\$2,041.60	\$2,128.64	641-645	\$16,815.28	\$8,230.20	\$8,581.08
161-165	\$4,304.56	\$2,105.40	\$2,195.16	646-650	\$16,945.60	\$8,294.00	\$8,647.60
166-170	\$4,434.88	\$2,169.20	\$2,261.68	651-655	\$17,075.92	\$8,357.80	\$8,714.12

# of Employees or Rental Units	2019 + 2020 + CASp	2019 Tax	2020 Tax	# of Employees or Rental Units	2019 + 2020 + CASp	2019 Tax	2020 Tax
171-175	\$4,565.20	\$2,233.00	\$2,328.20	656-660	\$17,206.24	\$8,421.60	\$8,780.64
176-180	\$4,695.52	\$2,296.80	\$2,394.72	661-665	\$17,336.56	\$8,485.40	\$8,847.16
181-185	\$4,825.84	\$2,360.60	\$2,461.24	666-670	\$17,466.88	\$8,549.20	\$8,913.68
186-190	\$4,956.16	\$2,424.40	\$2,527.76	671-675	\$17,597.20	\$8,613.00	\$8,980.20
191-195	\$5,086.48	\$2,488.20	\$2,594.28	676-680	\$17,727.52	\$8,676.80	\$9,046.72
196-200	\$5,216.80	\$2,552.00	\$2,660.80	681-685	\$17,857.84	\$8,740.60	\$9,113.24
201-205	\$5,347.12	\$2,615.80	\$2,727.32	686-690	\$17,988.16	\$8,804.40	\$9,179.76
206-210	\$5,477.44	\$2,679.60	\$2,793.84	691-695	\$18,118.48	\$8,868.20	\$9,246.28
211-215	\$5,607.76	\$2,743.40	\$2,860.36	696-700	\$18,248.80	\$8,932.00	\$9,312.80
216-220	\$5,738.08	\$2,807.20	\$2,926.88	701-705	\$18,379.12	\$8,995.80	\$9,379.32
221-225	\$5,868.40	\$2,871.00	\$2,993.40	706-710	\$18,509.44	\$9,059.60	\$9,445.84
226-230	\$5,998.72	\$2,934.80	\$3,059.92	711-715	\$18,639.76	\$9,123.40	\$9,512.36
231-235	\$6,129.04	\$2,998.60	\$3,126.44	716-720	\$18,770.08	\$9,187.20	\$9,578.88
236-240	\$6,259.36	\$3,062.40	\$3,192.96	721-725	\$18,900.40	\$9,251.00	\$9,645.40
241-245	\$6,389.68	\$3,126.20	\$3,259.48	726-730	\$19,030.72	\$9,314.80	\$9,711.92
246-250	\$6,520.00	\$3,190.00	\$3,326.00	731-735	\$19,161.04	\$9,378.60	\$9,778.44
251-255	\$6,650.32	\$3,253.80	\$3,392.52	736-740	\$19,291.36	\$9,442.40	\$9,844.96
256-260	\$6,780.64	\$3,317.60	\$3,459.04	741-745	\$19,421.68	\$9,506.20	\$9,911.48
261-265	\$6,910.96	\$3,381.40	\$3,525.56	746-750	\$19,552.00	\$9,570.00	\$9,978.00
266-270	\$7,041.28	\$3,445.20	\$3,592.08	751-755	\$19,682.32	\$9,633.80	\$10,044.52
271-275	\$7,171.60	\$3,509.00	\$3,658.60	756-760	\$19,812.64	\$9,697.60	\$10,111.04
276-280	\$7,301.92	\$3,572.80	\$3,725.12	761-765	\$19,942.96	\$9,761.40	\$10,177.56
281-285	\$7,432.24	\$3,636.60	\$3,791.64	766-770	\$20,073.28	\$9,825.20	\$10,244.08
286-290	\$7,562.56	\$3,700.40	\$3,858.16	771-775	\$20,203.60	\$9,889.00	\$10,310.60
291-295	\$7,692.88	\$3,764.20	\$3,924.68	776-780	\$20,333.92	\$9,952.80	\$10,377.12
296-300	\$7,823.20	\$3,828.00	\$3,991.20	781-785	\$20,464.24	\$10,016.60	\$10,443.64
301-305	\$7,953.52	\$3,891.80	\$4,057.72	786-790	\$20,594.56	\$10,080.40	\$10,510.16
306-310	\$8,083.84	\$3,955.60	\$4,124.24	791-795	\$20,724.88	\$10,144.20	\$10,576.68
311-315	\$8,214.16	\$4,019.40	\$4,190.76	796-800	\$20,855.20	\$10,208.00	\$10,643.20
316-320	\$8,344.48	\$4,083.20	\$4,257.28	801-805	\$20,985.52	\$10,271.80	\$10,709.72
321-325	\$8,474.80	\$4,147.00	\$4,323.80	806-810	\$21,115.84	\$10,335.60	\$10,776.24
326-330	\$8,605.12	\$4,210.80	\$4,390.32	811-815	\$21,246.16	\$10,399.40	\$10,842.76
331-335	\$8,735.44	\$4,274.60	\$4,456.84	816-820	\$21,376.48	\$10,463.20	\$10,909.28
336-340	\$8,865.76	\$4,338.40	\$4,523.36	821-825	\$21,506.80	\$10,527.00	\$10,975.80
341-345	\$8,996.08	\$4,402.20	\$4,589.88	826-830	\$21,637.12	\$10,590.80	\$11,042.32
346-350	\$9,126.40	\$4,466.00	\$4,656.40	831-835	\$21,767.44	\$10,654.60	\$11,108.84
351-355	\$9,256.72	\$4,529.80	\$4,722.92	836-840	\$21,897.76	\$10,718.40	\$11,175.36

# of Employees or Rental Units	2019 + 2020 + CASp	2019 Tax	2020 Tax	# of Employees or Rental Units	2019 + 2020 + CASp	2019 Tax	2020 Tax
356-360	\$9,387.04	\$4,593.60	\$4,789.44	841-845	\$22,028.08	\$10,782.20	\$11,241.88
361-365	\$9,517.36	\$4,657.40	\$4,855.96	846-850	\$22,158.40	\$10,846.00	\$11,308.40
366-370	\$9,647.68	\$4,721.20	\$4,922.48	851-855	\$22,288.72	\$10,909.80	\$11,374.92
371-375	\$9,778.00	\$4,785.00	\$4,989.00	856-860	\$22,419.04	\$10,973.60	\$11,441.44
376-380	\$9,908.32	\$4,848.80	\$5,055.52	861-865	\$22,549.36	\$11,037.40	\$11,507.96
381-385	\$10,038.64	\$4,912.60	\$5,122.04	866-870	\$22,679.68	\$11,101.20	\$11,574.48
386-390	\$10,168.96	\$4,976.40	\$5,188.56	871-875	\$22,810.00	\$11,165.00	\$11,641.00
391-395	\$10,299.28	\$5,040.20	\$5,255.08	876-880	\$22,940.32	\$11,228.80	\$11,707.52
396-400	\$10,429.60	\$5,104.00	\$5,321.60	881-885	\$23,070.64	\$11,292.60	\$11,774.04
401-405	\$10,559.92	\$5,167.80	\$5,388.12	886-890	\$23,200.96	\$11,356.40	\$11,840.56
406-410	\$10,690.24	\$5,231.60	\$5,454.64	891-895	\$23,331.28	\$11,420.20	\$11,907.08
411-415	\$10,820.56	\$5,295.40	\$5,521.16	896-900	\$23,461.60	\$11,484.00	\$11,973.60
416-420	\$10,950.88	\$5,359.20	\$5,587.68	901-905	\$23,591.92	\$11,547.80	\$12,040.12
421+	\$11,081.20	\$5,423.00	\$5,654.20	906-910	\$23,722.24	\$11,611.60	\$12,106.64
Rental Unit Cap				911-915	\$23,852.56	\$11,675.40	\$12,173.16
426-430	\$11,211.52	\$5,486.80	\$5,720.72	916-920	\$23,982.88	\$11,739.20	\$12,239.68
431-435	\$11,341.84	\$5,550.60	\$5,787.24	921-925	\$24,113.20	\$11,803.00	\$12,306.20
436-440	\$11,472.16	\$5,614.40	\$5,853.76	926-930	\$24,243.52	\$11,866.80	\$12,372.72
441-445	\$11,602.48	\$5,678.20	\$5,920.28	931-935	\$24,373.84	\$11,930.60	\$12,439.24
446-450	\$11,732.80	\$5,742.00	\$5,986.80	936-940	\$24,504.16	\$11,994.40	\$12,505.76
451-455	\$11,863.12	\$5,805.80	\$6,053.32	941-945	\$24,634.48	\$12,058.20	\$12,572.28
456-460	\$11,993.44	\$5,869.60	\$6,119.84	946+	\$24,764.80	\$12,122.00	\$12,638.80
461-465	\$12,123.76	\$5,933.40	\$6,186.36	Employee Cap			
466-470	\$12,254.08	\$5,997.20	\$6,252.88				
471-475	\$12,384.40	\$6,061.00	\$6,319.40				
476-480	\$12,514.72	\$6,124.80	\$6,385.92				

The structure is set up in ranges of five employees and increases incrementally as the number of employees or rental units increases. For every five employees, the rate increases by \$63.80 for the 2019 tax and \$66.52 for the 2020 tax, totaling in an increase of \$130.32 for every five employees. The table caps the tax for the number of rental units at 421 units and the number of employees at 946 employees. Once a business reaches those thresholds there is no corresponding increase in tax amount.

9.4 Summary

The City of Sunnyvale collected \$1,840,495 in revenue from the tax, less than 1% of the total General Fund revenue for the fiscal year. The City utilizes the funds for a general purpose and administers the program in-house. Sunnyvale's Department of Finance revenue utility billing business license administers the program in-house with 1.80 FTE dedicated and accepts online payment of the tax.

The Business License Tax does not utilize an annual escalator, but rather has a built-in methodology of increasing the tax rate annually. Charitable organizations, Disabled veterans, Public Utilities and Federal Tax-Exempt entities are exempt from paying the tax and it does not utilize a sunset clause.

3 Summary of Business License Tax Programs

This chapter of the report is focused on summarizing the information gathered from each of the jurisdictions. The following subsections provide an overview of the comparison of data points and the execution of the Business License Tax.

1. Demographic Comparison

The project team collected demographics information of the comparable cities including population, number of businesses and services provided. The following table summarizes the information collected:

Demographic Information

City	Population	# of Businesses
Cupertino	60,777	3,800
East Palo Alto	29,765	1,527
Mountain View	81,438	3,700
Redwood City	86,685	6,275
San Francisco	884,363	242,000
San Jose	1,035,000	58,000
San Mateo	104,748	7,486
Santa Clara	127,134	13,000
Sunnyvale	152,389	7,875
Palo Alto	61,178	5,496

As the table indicates, San Jose and San Francisco have the largest populations at 1,035,000 and 884,363, while East Palo Alto has the lowest at 29,765. San Francisco has over 242,000 businesses within its jurisdiction while East Palo Alto has the lowest number at approximately 1,527.

2. Employment by Industry Comparison

The project team also gathered employment data for each of the jurisdictions in the comparative to display the types of industries that are located within the City. This information provides additional context that may be useful in understanding why a specific methodology was adopted by a specific community. The following table provides a breakdown of the business makeup for each jurisdiction using Employment by Industry derived from the Bureau of Data and Statistics and the US Census for 2017:

Employment by Industry

Industry	Cupertino	East Palo Alto	Mountain View	Redwood City	San Francisco	San Jose	San Mateo	Santa Clara	Sunnyvale	Palo Alto
Professional	29%	6%	23%	14%	22%	13%	15%	21%	27%	25%
Information	7%	3%	13%	5%	6%	4%	5%		8%	8%
Manufacturing	22%	7%	13%	8%	4%	16%	9%	19%	20%	13%
Education	7%	8%	9%	9%	7%	8%	8%	8%		14%
Healthcare	9%	12%	9%	11%	11%	12%	11%	9%	15%	11%
Retail	7%	12%	7%	10%	9%	9%	9%	8%		5%
Hospitality	3%	14%	6%	7%	9%	8%	9%	6%	6%	5%
Administrative		11%	3%	6%	4%	5%	6%			2%
Construction	2%	8%	3%	7%	3%	6%	5%	3%		1%

As indicated by the table above, the industry most commonly found in the top three industries with the most employment among the jurisdictions compared is professional services. Healthcare and Manufacturing are two industries that are also commonly found and appear in the top three industries for most jurisdictions, with the exception of East Palo Alto, Redwood City and San Francisco. The City of Palo Alto follows the trends in the surrounding areas with professional service and manufacturing industries being among the largest, however, education is the second largest industry based on employment, not shared in the top three with other jurisdictions.

3. Business License Tax

The surveyed jurisdictions had business license programs based upon several criteria including, Employee Count, Gross Receipts, Square Foot, and Payroll. The following tables summarizes the general and financial information for the Business License Tax programs for each jurisdiction:

Business License Tax General Information

City	Business License Type	Special or General Tax	Year Adopted
Cupertino	Square Foot	General	1992
East Palo Alto	Gross Receipts	Specific	2016
Mountain View	Employee Count	General	2018
Redwood City	Employee Count	General	1990
San Francisco	Gross Receipts; Payroll	General	2011
San Jose	Employee Count	General	2016
San Mateo	Gross Receipts	General	1976
Santa Clara	Employee Count	General	2003
Sunnyvale	Employee Count	General	1976

Business License Tax Financial Information

City	Actual Business License Revenue	Total Municipal FTEs	Revenue Per FTE	BLT Revenue as % of GF Total Revenue	Revenue Per Business
Cupertino	\$876,000	201.75	\$4,344	1%	\$230
East Palo Alto	\$1,175,000	114.75	\$10,239	4%	\$769
Mountain View	\$6,000,000	635.75	\$9,438	4%	\$1,621
Redwood City	\$2,628,000	564.36	\$4,757	2%	\$427
San Francisco	\$820,000,000	30,960.48	\$26,469	9%	\$3,388
San Jose	\$72,200,000	6,412.60	\$11,259	6%	\$1,244
San Mateo	\$5,940,000	685.94	\$8,659	5%	\$793
Santa Clara	\$915,000	1,111.25	\$823	0.5%	\$70
Sunnyvale	\$1,840,000	907.96	\$2,027	1%	\$233

Approximately 55% of jurisdictions utilize an Employee Count as the tax structure basis and three out of nine jurisdictions (33%) employ the gross receipts structure. Cupertino is the only jurisdiction in the survey that employs a Square Foot method. San Francisco generates the highest revenue per business from the tax at an average of \$3,388 while Santa Clara collects the least at average of \$70 per business. San Francisco collects the highest revenue per FTE at \$26,469, while Santa Clara collects the least at \$823 per FTE. Santa Clara has the lowest revenue as a percentage of total revenue at 0.5%, while San Jose collects 6% and San Francisco has the highest percentage at 9%.

4. Business Tax Program Comparison

The five jurisdictions that utilize an employee count methodology in calculating a Business License Tax have Professional services somewhere in the top three employment industries. This approach provides a simple approach to assessing the business tax as employee head count is an easy approach for the business to report and for the City to confirm, using external data sources, the reported numbers to ensure compliance. The City may wish to consider whether or not to include employees who work from home but do not report to the physical workplace in the assessed employee counts. Any exemption for work at home employees would reduce revenue received. EDD data used in these projections includes all employees who are on the payroll at a business within the City of Palo Alto and makes no distinction for those that may work from home.

All of the jurisdictions that utilize a Gross Receipts methodology in calculating a business tax share Healthcare as one of the top employment industries. Cupertino is the only jurisdiction that calculates business tax using square feet and Professional services and Manufacturing are the two largest industries within its limits. The tax rate goes down incrementally as business footprints get larger. If a square footage approach were utilized, the program would need to provide a clear approach to auditing reporting business square footage. This may be difficult due to data availability and the fact that many operations have shared office areas and sub-leased office space arrangements that may make tracking, auditing and administering the program more difficult.

The following tables outline details of the business license tax program for each of the comparable jurisdictions.

Business License Tax Details

City	Exemptions	Sunset	Annual Escalator	Usage	Administration	Payable Online
Cupertino	No	No	Yes	General	In-House	Yes
East Palo Alto	Yes	No	No	Specific	In-House	No
Mountain View	Yes	No	Yes	General	In-House	No
Redwood City	Yes	No	Yes	General	In-House	Yes
San Francisco	Yes	No	No	General	In-House	Yes
San Jose	Yes	No	Yes	General	In-House	Yes
San Mateo	Yes	No	No	General	In-House	Yes
Santa Clara	Yes	No	No	General	In-House	No
Sunnyvale	Yes	No	No	General	In-House	Yes

Some businesses and occupations are exempt from local business taxation under state or federal law including non-profit or charitable organizations (e.g., non-profit hospitals), banks and other financial institutions that pay the state in-lieu tax, small residential care facilities, and small home childcare facilities. The City can include other exemptions (e.g., small business, limited duration activity) in a proposed tax measure.

Tax Exemptions by Community

City	State Exemptions		Local Exemptions			
	Non-Profit	Charitable Organizations	Public Utility	Small Business ²	Disabled Veteran	Low Income Rental Units
Cupertino	✓	✓				
East Palo Alto	✓	✓				
Mountain View	✓	✓	✓			
Redwood City	✓	✓	✓		✓	
San Francisco	✓	✓		✓		
San Jose	✓	✓		✓		✓
San Mateo	✓	✓			✓	
Santa Clara	✓	✓				
Sunnyvale	✓	✓	✓		✓	

- **Most jurisdictions have some exemptions:** All jurisdictions, with the exemption of Cupertino, offer exemptions to the business license tax: All jurisdiction, with the

² Small businesses are defined by San Francisco and San Jose as generating less than \$1 million in gross receipts

exception of Cupertino, offer exemptions to a variety of businesses. The most common exemptions include: Non-Profits and Charitable Organizations.

- **None of the jurisdictions have a sunset clause:** No jurisdictions in the comparative incorporated a sunset clause, requiring the re-adoption of the tax after a certain period of time, in their business license tax structure.
- **Most cities do not utilize an annual escalator:** Cupertino, Mountain View, Redwood City, and San Jose are the only jurisdictions that adjust the tax rate annually. The remaining cities chose to not include an annual escalator that would automatically increase or decrease the rate based on a specific set of factors.
- **Most jurisdictions use the revenue collected for General Fund purposes:** All of the jurisdictions, with the exception of East Palo Alto use the revenue collected from the tax for general spending in the General Fund. East Palo Alto utilizes the funds from the tax for housing and homelessness purposes.
- **All of the jurisdictions administer the business license tax in-house:** All of the jurisdictions chose to administer the program internally through either a Finance or Business Development department, and not contract out the administration of the program to a third-party consultant.
- **Most jurisdictions allow business owners to pay the tax online:** Most jurisdictions give business owners the option to apply for a business license and pay the tax online. Mountain View and East Palo Alto require the tax to be paid in person.

The jurisdictions are generally in agreement on the details involved in the operation of the Business License Tax. The jurisdictions generally offer exemptions to the tax and do not have a sunset clause in the code. Most do not utilize an annual escalator and administer the program in-house with the funds used for general purposes.

5. SB1186 License Fee (CASp)

Senate Bill 1186 adds a state fee on any applicant for a local business tax. Beginning January 1, 2013, the fee is \$1.00, followed by an increase on January 1, 2018 to \$4.00 and a reduction to \$1.00 on January 1, 2024. The purpose of the fee is to increase disability access and compliance with construction-related accessibility requirements and to develop educational resources for businesses in order to facilitate compliance with federal and state disability laws.

Jurisdictions may attach the fee to the business license tax applications or permits and must use the revenue generated for two specific purposes; Training and Retention of Certified Access Specialist (CASp) and Activities or Programs That Facilitate Accessibility Compliance.

6. Summary / Preliminary Findings

There are several key policy decisions that will need to be considered in the development of a proposed Business License Tax Program for the City of Palo Alto. Based upon the comparative research conducted and considering factors such as ease of implementation, reliability of data, and maintaining a competitive approach in the regions, the following key points are provided as initial recommendations for consideration regarding key elements of a Business License Tax Program.

- **Employee Based Fee:** Most comparable entities are utilizing an employee count approach to establishing business license tax fees. If the City were to utilize this approach, it would be in alignment with other communities in the Bay Area. The rate establishes should be calculated based upon the comparative fees charged by other communities or businesses may factor this cost into decisions regarding where to locate.
- **Some exemptions should be included:** All jurisdiction, with the exception of Cupertino, offer exemptions to a variety of businesses. The most common exemptions include: Non-Profits, Charitable Organizations, and Governmental entities. The City should consider implementing exemptions in general alignment with those utilized by other jurisdictions to maintain market competitiveness and prevent businesses from considering locating in other communities due to the business license tax program. Other exemptions could be imposed to promote economic development of select types of businesses (either specific industries or business sizes).
- **Sunset Clause:** None of the jurisdictions in the comparative incorporated a sunset clause, requiring the re-adoption of the tax after a certain period of time, in their business license tax structure. The City would be consistent with these other entities if they do not include a sunset clause.
- **Annual escalator:** While the majority of communities do not include an annual escalator, the City of Palo Alto should consider implementing a small annual escalator or include a review of the fees as part of the annual budget. Cupertino, Mountain View, Redwood City, and San Jose presently have in place a procedure for an automatic annual adjustment.

- **Online Payment:** The business tax should be established in a manner that enables online application submittal, processing and payment of fees.
- **Program Administration:** All of the communities surveyed have in-house staff to administer the program. In addition to processing and issuing licenses, resources (staff or contracted) would be required to ensure a sufficient auditing program were developed and implemented to ensure compliance with the business license tax program.

As additional direction is provided regarding the potential approaches under consideration for a Business License Tax program, additional program parameters will be developed to provide the framework for implementation and updated revenue projections will be developed.

4 Preliminary BLT Revenue Projections

In addition to the comparative survey of Business License Tax programs in other municipalities, the scope of work focused on the development of Business License Tax models based upon three different methodologies for assessing the tax specifically based on: (1) business employee count, (2) business square footage, and (3) total business payroll. The revenue estimates will be further refined as additional data cleansing and reliability testing is conducted and more definitive potential program parameters are developed. Certain program elements, such as exemptions, are generally not yet factored into the revenue estimates. Specific data limitations and ongoing analytical work is discussed in more detail below for each respective model. The following sections provide the initial revenue projections.

1. Project Background and Methodology

Matrix Consulting Group was tasked with creating financial models for three different business license structures based on different variables including:

- Number of employees per business.
- Square footage utilized by a business.
- Total payroll of a business.

Multiple databases from the City, State, and other third-party entities were utilized in collecting and analyzing data including:

- The City's current Business Registry.
- Employment data from the California Economic Development Department.
- Business rosters from the California Secretary of State.
- Business registry from the California Department of Tax and Fee Administration.
- Market data compiled by third-party vendors including InfoGroup, CoStar, and Avenu Insights & Analytics/MuniServices.

1.1 Data Limitations

Creating revenue models for business license programs is a complex process that requires reliable data to estimate the population and demographic make-up of the local economy. In reviewing the various data sets provided by the City, we found that each data base varied greatly in population size, and not all data contained the variables needed for each model (employee count, square footage, payroll). At this time, we are in the process of conducting data reliability tests from the multiple data sets to optimize our estimates for each business license model.

The following preliminary summaries of the three business license models provide current best estimates based upon available data that contained the requisite variables and population size for projections. These estimates are still undergoing refinement and

updating as the datasets are supplemented and refined. Data models presented below should be used as preliminary estimates only at this time, and not as final, official estimates. These projections are also based upon the utilization of a representative rate for each methodology. This rate may be changed by the City to meet its specific needs and desires regarding revenue generation and impact on business entities.

2. Model 1: Employee Count

The first business license model calculates business tax based on the total number of employees at any given business. Not every data set included detail on the number of employees, but we were able to evaluate data from the City's current business registry, California Economic Development Department data, and market data from InfoGroup.

InfoGroup contained the largest population of businesses, with a population 5,945 businesses in its "verified" data base ("verified" indicating that the company's researchers verified business characteristics). About 84% of this dataset contained employee data for us to conduct a preliminary model based on the 4,996 businesses reporting data who employ approximately 72,748 people. In addition, InfoGroup has another data set containing over 3,500 "unverified" businesses; however, we have excluded this population until we are able to complete our data reliability testing. Since the "verified" roster was the largest data set with the most detail on employee counts, we have relied on this data set as a proxy for the local economy until we are able to complete our data reliability testing to potentially consolidate and overlay the different data sets. Using this method, it is estimated that a Business License Tax on employees could generate over \$3.6 million annually at the rates listed below.

Preliminary Employee Business License Model

Number of Employees		Number of Businesses	Potential Revenue
Min	Max		
-	1	701	\$52,575
2	25	3,935	\$407,585
26	50	178	\$58,670
51	500	169	\$1,199,830
501	1,000	6	\$347,070
1,001	5,000	7	\$1,565,615
Estimated Annual Revenue			\$3,631,345

Source: Employee estimates based on InfoGroup market data provided by the City.

The rates per employee adopted by the City of Mountain View (for adoption in 2020) were used as a basis for calculating revenue potential for the City of Palo Alto. Rates can be adjusted as deemed appropriate for the City of Palo Alto. Rates for the City of Mountain View are highlighted in the table below.

**City of Mountain View Business License Rates
Beginning January 2020**

Number of Employees	Business Registration and License Tax
1	\$75
2 to 25	\$75 + \$5/employee over 1
26 to 50	\$195 + \$10/per employee over 25
51 to 500	\$445 + \$75/employee for each employee over 50 employees
501 to 1,000	\$34,195 + \$100/employee for each employee over 500 employees
1,001 to 5,000	\$84,195 + \$125/employee for each employee over 1,000 employees
5,001+	\$584,195 + \$150/employee for each employee over 5,000 employees

Source: City of Mountain View, Measure P; Business Registration and License Tax Ordinance

2.1 Employee Counts Subject to Change

As we continue our data reliability testing to determine whether InfoGroup's two data sets can be consolidated, and whether they align with other data sets from the City and State, the employee counts and revenue estimates in this model may fluctuate.

At this time, no determinations have been made regarding exemptions so these are not yet factored into the model or projections. Any business categories or industries exempted will reduce the revenue projections.

3. Model 2: Square Footage

The second business license model estimates a business tax based on the square footage used by any given business. Although a few of our data sets contained square footage estimates, information was inconsistently recorded among the sources, and business populations varied significantly between data sets. Data sets containing square footage included the City's current business registry, market data from CoStar, and market data from InfoGroup.

Similar to our observations with employee counts, InfoGroup seemed to have the largest population of businesses with 5,945 companies in its "verified" roster. About 92 percent of this population, or 5,496 businesses, contained data on the square footage used by individual businesses. Although this is the largest data set, square footage utilization was not recorded in specific measurements, but in ranges. Data from CoStar and the City's business registry does contain more specific measurements by company; however, these population sizes were significantly smaller. For the purposes of this preliminary model, we have relied on InfoGroup's "verified" roster of businesses to estimate a broad range of potential revenue since specific measurements by company are not provided.

Low revenue estimates assume that the total population of businesses in each square footage tier are being taxed at the minimum square footage. High revenue estimates assume that the total population of businesses in each square footage tier are being taxed at the maximum square footage. While these are broad ranges, the reality is that annual revenues will fall somewhere between these ranges due to the uncertainty of office space used by companies. These are proxies for this preliminary estimate while we continue to conduct our data reliability testing. Our preliminary model is presented in the following table.

Preliminary Square Footage Business License Model

Square Feet Ranges		Rate per Sq. Ft.	Number of Businesses	Potential Revenue	
Min	Max			Low	High
11	4,999	\$0.0397	3,806	\$15,110	\$755,340
5,000	19,999	\$0.0346	908	\$157,084	\$628,305
20,000	39,999	\$0.0300	313	\$187,800	\$375,591
40,000	99,999	\$0.0247	279	\$275,652	\$689,123
100,000	+	\$0.0197	190	\$374,300	\$748,600 ²
Totals			5,496	\$1,009,946	\$3,196,958

Source: Business populations and square footage ranges compiled from InfoGroup's "verified" market data provided by the City.

¹Potential revenue for minimum square footage was calculated assuming that the minimum space used was 100 square feet.

²High end potential revenue for the maximum square footage range was calculated with the assumption that the maximum space used was 200,000 square feet. This was a judgmental proxy selected based on a review of CoStar's data base and the typical volume of space used by large companies.

For comparative purposes, we applied square footage rates from the City of Cupertino as of January 1, 2019, in our square footage model. Rates can be adjusted as deemed appropriate for the City of Palo Alto. Rates for the City of Cupertino are highlighted in the following table.

**City of Cupertino Business License Rates
As of January 2019**

Square Feet Tiers	Rate per Sq. Ft.
0-5,000	\$0.0397
5,001-25,000	\$0.0346
25,001-75,000	\$0.0300
75,001-100,000	\$0.0247
100,001-150,000	\$0.0197
150,001+	\$0.0050

Source: City of Cupertino Business License Rate Sheet, January 1, 2019.

3.1 Square Footage and Business Counts Subject to Change

As we continue our data reliability testing to determine whether InfoGroup's two data sets can be consolidated, and whether they align with other data sets from CoStar and the City's business registry, the square footage, business counts, and subsequent revenue estimates in this model will be refined from the broad ranges currently presented.

At this time, no determinations have been made regarding exemptions so these are not yet factored into the model or projections. Any business categories or industries exempted will reduce the revenue projections.

4. Model 3: Payroll

Our third business license model estimates a business tax based on an organization's total payroll. Payroll includes hourly pay, salary, commissions, cash bonuses, and stock options if cashed in, and anything else that is considered taxable income by the federal government if received from work-related activities (i.e. the benefit of a take home vehicle can be taxable).

Data analysis is derived from information gleaned from available non-confidential Employment Development Department (EDD) data. Information from the EDD is organized and grouped by NAICS business codes that categorize businesses by industry type. While the grouping can be drilled down to a more detailed level using three or four digit codes (i.e. the two digit code 33 for Manufacturing is broken down into subsets of 334 Computer and Electronic Manufacturing, 336 Transportation Equipment Manufacturing, etc.), for purposes of this model, the two-digit, higher level NAICS codes were used.

Original data provided by the EDD included information for Stanford, which included an average of 13,564 employees and \$1.4 billion in total annual wages in the dataset. This information was removed from the data set to arrive at a total average employee

headcount and total average employee wages for businesses within the boundaries of the City of Palo Alto (excluding Stanford).

Several NAICS classifications are exempt from reporting payroll data or their number of employees. Data is treated as confidential and when there are fewer than five businesses in a category or one employer makes up 80 percent or more of the employment in a category. There are currently seven (7) NAICS code classifications that exist in the City of Palo Alto without payroll reporting data.

Nonprofit organizations are exempt from paying sales and property tax; however, they pay payroll taxes (Social Security and Medicare). Using a payroll tax, according to state law, nonprofit organizations would be exempt in tax revenue calculations. Data from the EDD does not specifically categorize businesses that are exempt from business license tax according to state law. Additional research and analysis would need to be performed to calculate this impact to the revenue estimate generated in this model.

The model based on taxation of payroll includes the following data:

- NAICS code
- Industry
- Annual average employment (# of employees)
- Annual average number of firms by industry code
- Average employees per firm
- Average wage per employee by firm
- Total annual wages by firm
- Average annual wages per employee by firm
- Phased in tax rates with a fully implemented rate in year three (3)
- Total estimated tax revenues by year
- Average taxes paid by firm, by industry, per year

The industries operating within the corporate limits of the City of Palo Alto with the highest average wages per employee include information, finance and insurance, management of companies and enterprises, wholesale trade, and limited manufacturing. Each of those industries has an average wage over \$200,000 annually. This is based on total payroll divided by total number of employees in each industry category. The industries with the lowest average wages include certain manufacturing; certain retail trade; arts, entertainment, and food services; and accommodation and food services. Each of those categories has an average annual wage of under \$50,000.

The table below shows estimated potential business license tax revenue with only NAICS industry codes 92F (Federal Government) and 92L (Local Government) exempted. It also includes an annual 3% escalator and utilizes no tiered or phased in rates. This model assumes no effect from portability of businesses based on a payroll tax at the modeled rate.

Rate as a % of Payroll	Year 1 Estimated Tax Revenue	Year 2 Estimated Tax Revenue	Year 3 Estimated Tax Revenue
0.1% (0.001)	\$15,569,474	\$16,036,558	\$16,517,655

The model shows year one revenue estimates at \$15,569,474, year two at \$16,036,558, and year three at \$16,517,655 including all industry categories. These estimates exclude Stanford employment data. If additional industries or business occupations are exempted from coverage, or a lower rate is applied, the revenue realized will decline.

Data for the top five industries with the highest average wages and the bottom four with the lowest average wages is provided in the table below:

Industry	Annual Average Employment	Annual Average Firms	Average Employees per Firm	Average Total Annual Wages per Firm	Average Wage per Employee	Year 1 Avg. Annual Tax Paid per Firm
Top 5 Average Wage Industries						
Finance and Insurance	2,872	251	11.44	\$882,608,241	\$307,315	\$3,516
Information	12,099	220	55	\$3,585,435,135	\$296,341	\$16,297
Management of Companies and Enterprises	3,109	29	107.21	\$753,701,644	\$242,426	\$25,990
Wholesale Trade	1,195	87	13.74	\$256,674,466	\$214,790	\$2,950
Manufacturing (NAICS 33)	5,597	75	74.63	\$1,158,775,747	\$207,035	\$15,450
Bottom 4 Average Wage Industries						
Arts, Entertainment, and Recreation	914	48	19.04	\$30,386,591	\$33,246	\$633
Accommodation and Food Service	6,023	246	24.48	\$210,797,756	\$34,999	\$857
Retail Trade	3,079	191	16.12	\$144,287,420	\$46,862	\$755
Manufacturing (NAICS 31)	118	8	14.75	\$5,630,541	\$47,716	\$704

As data allows further refinements, impact by industry will be provided to enable discussion of possible exemption impacts. The following table provides the EDD data that was utilized for the revenue projections for this model. As previously noted, all Stanford data was excluded and this dataset represents the remaining businesses within the City of Palo Alto.

**City of Palo Alto
Employment and Wages by NAICS Code from EDD Data**

NAICS	Industry	Annual Average Firms	Annual Average Employment	Total Annual Wages	Average Annual Wages Per Firm	Year 1 Estimated Revenue @ 0.1%	Year 1 Average Paid Per Firm
23	Construction	84	769	\$84,331,359	\$1,003,945	\$84,331	\$1,004
31	Manufacturing	8	118	\$5,630,541	\$703,818	\$5,631	\$704
32	Manufacturing	16	42	\$3,388,623	\$211,789	\$3,389	\$212
33	Manufacturing	75	5,597	\$1,158,775,747	\$15,450,343	\$1,158,776	\$15,450
42	Wholesale Trade	87	1,195	\$256,674,466	\$2,950,281	\$256,674	\$2,950
44	Retail Trade	191	3,079	\$144,287,420	\$755,432	\$144,287	\$755
45	Retail Trade	61	2,024	\$180,059,042	\$2,951,788	\$180,059	\$2,952
48	Transportation and Warehousing	11	274	\$14,085,831	\$1,280,530	\$14,086	\$1,281
49	Transportation and Warehousing	5	**	**	**	**	**
51	Information	220	12,099	\$3,585,435,135	\$16,297,432	\$3,585,435	\$16,297
52	Finance and Insurance	251	2,872	\$882,608,241	\$3,516,367	\$882,608	\$3,516
53	Real Estate and Rental and Leasing	195	1,253	\$192,724,673	\$988,332	\$192,725	\$988
54	Professional, Scientific, and Technical Services	942	21,825	\$3,990,640,637	\$4,236,349	\$3,990,641	\$4,236
55	Management of Companies and Enterprises	29	3,109	\$753,701,644	\$25,989,712	\$753,702	\$25,990
56	Administrative and Support and Waste Management and Remediation Services	129	1,962	\$193,243,558	\$1,498,012	\$193,244	\$1,498
61	Educational Services	94	**	**	**	**	**
62	Health Care and Social Assistance	854	22,932	\$2,459,242,605	\$2,879,675	\$2,459,243	\$2,880
71	Arts, Entertainment, and Recreation	48	914	\$30,386,591	\$633,054	\$30,387	\$633
72	Accommodation and Food Services	246	6,063	\$210,797,756	\$856,901	\$210,798	\$857
81	Other Services (except Public Administration)	495	2,124	\$145,612,803	\$294,167	\$145,613	\$294
99	Not Elsewhere Classified	91	**	**	**	**	**
	Federal and Local Government	73	6,391	\$637,699,581	\$8,735,611	\$0	\$0
Totals Provided by EDD		4,211	103,921	\$16,207,173,501			
Totals Excluding Federal and Local Govt.		4,138	97,350	\$15,569,473,920			