



# City of Palo Alto

## Finance Committee Staff Report

(ID # 10655)

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**Report Type: Action Items**

**Meeting Date: 12/17/2019**

**Council Priority: Fiscal Sustainability**

**Summary Title: Ballot Measure Modeling and Analysis**

**Title: Consideration, Evaluation, and Discussion of a Revenue Generating Local Tax Ballot Measure, Review of Refined Modeling, Analysis, Tax Structure and Recommendation to the City Council**

**From: City Manager**

**Lead Department: Administrative Services**

### **Recommendation**

Staff recommends that the Finance Committee conduct a review and provide a recommendation to the City Council on a potential local tax measure for consideration to further inform stakeholder outreach, polling, and further analysis and administration efforts. Major variables to provide direction include, but are not limited to:

- A. Type of local tax (e.g., parcel tax or business license tax) and method or unit of measure to base the tax measure on (e.g. square footage or employee count).
- B. Tax rate structure – e.g. flat rate or tiered rate, level of taxation rate (gross revenue estimated between one and 10 percent of General Fund revenue), a desired rate cap per business, and exemptions desired to be pursued by the City

It is expected that further narrowing for variables such as general tax versus a special tax, a sunset provision, a phase in/implementation period, and administrative costs, to name a few, will continue to be reviewed and refined with additional information through processes, which includes polling and outreach.

### **Executive Summary**

This report continues work on the *Fiscal Sustainability* Council priority by further exploring a potential revenue generating ballot measure. The ballot measure work plan is compartmentalized into three tracks that continuously intersect throughout this interactive process: modeling and analysis, polling, and stakeholder outreach. This report is the third in a series of reports that discuss the modeling and analysis component of the ballot measure work plan, which the City administration has been actively engaged on with the City Council for approximately seven months.

This information and data are presented to the Finance Committee to assist in more clearly defining a potential tax measure to recommend to Council. To further inform and guide the discussion of the components and complexities of a tax measure, this report recaps Council direction from the September 16, 2019 meeting. The report covers and briefly identifies components of the Council's direction, presents tax models in a tabular form that also includes components to consider or be aware of as policy decisions are made, and summarizes an updated consultant study that includes additional modeling and analysis for a potential business tax.

Staff is seeking to guide the Finance Committee in making a recommendation to the City Council, as the Committee articulates which of the three tables outlining potential local tax measures to continue to pursue and further refines the type or range of potential tax rates and exemptions to continue to evaluate.

### **Background**

In 2019, the City Council identified *Fiscal Sustainability* as a priority for 2019 and approved a multi-point workplan to address this priority which can be found [here](#). Included in this workplan was direction to staff to explore revenue generating measures and, more specifically, to explore a more robust business tax or license program. Staff embarked on addressing these elements of the workplan and the City Council approved a workplan specific to elements M and N of the fiscal sustainability workplan.

Staff has outlined three legs to the exploration of a local tax measure to potentially be placed on a future ballot – modeling and analysis, polling, and outreach. These are concurrently worked on by staff and consultants, with regular check-ins with the Finance Committee and Council. **Attachment B** provides an exhaustive list of staff reports regarding a potential revenue generating local tax measure.

As part of the modeling and analysis component, staff has reviewed two rounds of analysis with the Finance Committee and the City Council, this report is the third report specifically focused on the analytical component of this work. This continues to be an iterative process where staff presents findings and analysis as work is completed by consultants and this report reflects the next step in this process.

Specifically, on the analytical work, the initial ballot measure consultant study was presented to the Finance Committee on August 20, 2019 and to Council on September 16, 2019. The Finance Committee and Council were presented with options for a potential business tax or parcel tax. Attached is the revised report that includes refined analysis as directed by Council. The Council provided the following direction on September 16, 2019:

*Direct Staff to continue work regarding a potential revenue generating ballot measure with the following parameters:*

- A) *Consider a general business tax measure focused on head count or square footage as the units of measure;*

Additional analysis for this is included in this staff report.

- B) *Consider a parcel tax measure focused on square footage as the unit of measure;*

Additional analysis for this is included in this staff report.

- C) *Potential revenue allocations to transportation and/or affordable housing shall be determined at a later date and informed by polling;*

Staff is actively working on an initial round of polling to understand voter sentiment around this. The results of initial polling are expected to be presented to Council in January/February 2020.

- D) *Continue further refined analysis on potential exemptions and tiered tax rate structures with the following guidance: maintaining estimated revenue generation between 1 and 10 percent of General Fund revenues, focus on implications regarding retail, restaurants, hospitality, and medical industries, and keeping potential tax structures simple and modern minimizing exemptions;*

Additional analysis for this is included in this staff report.

- E) *Continue to review any potential ballot measures as either a general tax (with nonbinding advisory language on intended use of funds) or a special tax measure;*

Additional analysis for this is included in this staff report.

- F) *Consider a parcel tax or General Obligation (GO) Bond for unfunded infrastructure projects at a later date;*

No current action necessary.

- G) *Discuss next steps including continued stakeholder engagement with multiple business types;*

City Council approved consultant assistance, funding, and a path forward for stakeholder engagement. An update of the state of outreach expected to be presented to Council in January/February 2020.

- H) *Direct Staff to get an information sheet on San Francisco and East Palo Alto's various business taxes; and*

This is included in this staff report, specifically Section 6 of **Attachment A**.

- I) *Develop a round of polling to test the type of taxation, levels of taxation, a phase in period and tiering based on type of business;*

- a. *Test payroll, headcount, and square footage taxes*

Staff is actively working on an initial round of polling to understand voter sentiment around

this. The next update that will include initial polling results and a status of outreach is expected to be presented to Council in January/February 2020.

## Discussion

This report provides the Finance Committee with additional modeling and analysis to inform and guide the discussion and policy decisions for a revenue generating local tax ballot measure. **Attachment A** provides the additional modeling and analysis provided by the City's consultant, Matrix Consulting Group, based on the most recent direction provided by the City Council.

This report is intended to further assist the Finance Committee in continuing its work in narrowing the scope and more clearly defining how a potential local tax ballot measure may be structured to provide a recommendation to the full City Council.

There are different structures, mechanisms, and policy choices to raise revenue through a local tax measure. The purpose of this item and additional analysis is **to continue to refine and more clearly define a potential tax structure by recommending to the City Council one of the three types of local measures outlined** and continue to guide staff and consultants as they seek additional feedback from a number of forums including the City Council, stakeholders, and polling. Based on the direction from the City Council, staff has outlined example structures and rates for three types of local tax measures.

- Parcel Tax – assessed on square footage developed on a given property
- Business Tax – assessed on employee head count
- Business Tax – assessed on square footage occupied and used by a specific business

Below, staff has outlined separate tables for each type of local tax measure that details the major variables for consideration from legal requirements to City Council policy decisions. There are core variables that impact each type of potential local tax that are NOT included in the table as it is expected that these will need additional feedback and input from additional efforts such as polling for further deliberation. These variables include: a sunset provision, general tax versus a special tax, a phase in/implementation period, and administrative costs, to name a few. Staff expects to revisit these once more refined variables are determined and additional information is available through processes including polling and outreach.

These tables are intended to prompt discussion, evaluate the potential rates, structures, and magnitude of these variables all towards the goal of recommending a set of parameters for a local tax measure for City Council consideration. Following each table is a brief discussion of observations, and aspects of the tax method or unit of measure that are important to consider as the Finance Committee works to further narrow the scope and define the structure for a potential tax ballot measure.

The three tables compartmentalize each component of the tax so that rate modeling, estimated amount of revenue, and other considerations are outlined. The tables, reading from left to right and top to bottom, are organized as follows: The first column identifies the different variables

for consideration that would be built into the overall local tax and how it is structured. This includes the type of tax, unit of measure, required ballot passage rate, exemptions, rate of taxation, estimated annual revenue, and tax administration considerations. Each row outlines these variables; describes the assumptions used, as well as the data used; and what the analysis articulates.

The major variables to be considered at this stage are described below:

***Tax Method/Unit of Measure:*** At the most macro level, the type of tax desired to be levied is the *tax method*. As outlined previously, 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. Each type of tax has different legal requirements associated with them, including how they are administered, levied, and calculated. The City Council has narrowed the tax method to either a parcel tax or a business tax – one of these would be levied on the landowner (parcel tax); the other would be levied on a business owner (business tax). The *Unit of Measure* identifies the measurement that the tax would be calculated based on. The City Council has narrowed the unit of measure for further analysis to either square feet or the number of employees.

***General/Specific & Passage Rate:*** Depending on the tax method, the voter approval rate required to pass the tax varies. It also varies by the structure of the tax and whether it is a general tax measure or a special tax measure. Another consideration that may be a variable within this topic is provisions for oversight and whether it would be active and/or passive oversight (reporting out).

*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.

***Legally Required Exemptions:*** The tax method and choice of a general versus a special tax will determine who the City assesses the tax on and how the City can use the tax revenue. The two variables reviewed above impact how the tax is administered, the type of property owners and/or business industries that are subject to and exempt from the tax, the required passage rate on the ballot, and potentially any reporting requirements.

**Rate Structure:** The rate at which a potential tax may be approved at is modeled in this section. Rates can be flat or tiered based on size, type, or quantity. Both the type of rate and the unit it is measured on is articulated in this section. For example:

A *flat rate* would be the same charge per square foot, i.e. \$0.50/square foot. This rate would be charged regardless of the size of the building - 200 square feet would be charged the same as a 25,000 square foot building and in this example would pay \$100/year and \$12,500/year respectively.

A *tiered rate* would change the rate per square foot based on the size of the building, for example buildings under 2,000 square feet would be assessed \$0.75/square foot while buildings 25,000 square feet and over would be assess \$0.25/square feet. In this example, the individual the tax was levied on would be paying \$1,500/year and \$6,250/year.

**Average Annual Fee and Tax Rate per Unit:** Based on the City Council direction, this section models what the average annual fee for a certain business or property owner may be AND the rate that would be charged. Three levels of taxation are modeled to articulate the City Council direction – 1% of General Fund revenue, 5% of General Fund revenue, and 10% of General Fund revenue – to provide the minimum (\$2.3 million), maximum (\$23.2 million), and middle (\$11.6 million) of the desired annual revenue to be generated by a potential tax. These rates and revenue estimates are approximations; the data sources and assumptions used to model these rates are documented in subsequent sections. In this section it is important to not only look at the rate of taxation and ultimately revenue generation but also to look at the rate compared to comparable and neighboring jurisdictions and the average annual cost for different types of businesses or land use.

**Examples of Businesses:** To assist in the review of the Average Annual cost and potential tax rate per unit of measure, rough examples of the types of businesses that would be impacted by tiered rates are outlined here. This is not intended to be an exhaustive list but rather to provide context and familiar reference.

**Exemptions by City Council Policy:** In addition to the exemptions of a potential local tax measure that are required by law, a jurisdiction may choose to exempt additional activities for various policy reasons. The City Council provided direction to look at the implications on retail, restaurants, hospitality, and medical industries. This section provides information on these populations, the potential revenue loss as a result of exemptions for these types of businesses. In many instances, separate data sources were necessary to provide this rough analysis and are so noted.

**Total Annual Revenue Estimate/Assumptions:** Staff has provided rough rate projections based on desired revenue generation. This section articulates the assumptions that were used in the calculations in the *Average Annual Fee and Tax Rate per Unit* section.

**Data Sources:** When considering a potential tax, it is important to understand the data sources available to assist in administering the tax. This section outlines the data sources available as well as the source(s) used in the analysis presented in the table. For example, the City was able to obtain data from the County of Santa Clara on the square footage of buildings on parcels, however, this data set does not identify the business types that the City Council may wish to exempt. Therefore, staff has used an alternative data set from a subscription database to assist in that analysis. Data sources are critical to understand the source behind the analysis as well as the administrability of a potential tax measure.

**Equity, Administrability, Stability, and Economic Benefits:** As a reminder, the City Council and Committee have adopted the *E.A.S.E Framework* – this framework is a guideline for various policy decisions related to a tax measure. E.A.S.E. represents Equity, Administrability, Stability, and Economic Benefits. Each component of E.A.S.E. is considered when weighing advantages, disadvantages, and trade-offs of the tax measure structure and its components. Internal and external impacts, drivers and potential volatility, and whether the tax measure promotes certain economic development activities are addressed when considering E.A.S.E. in the policy decision process. This frame is consistently provided throughout this additional analysis.

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 tables below detail the three different options and how the variables discussed above would materialize through the administration and implementation of each option. After each table, a narrative description of the tax is included that further details considerations such as data sources, how the tax could be collected, and other distinguishing characteristics.

Tax Method/Unit of measure		Parcel Tax Assessed based on the building square footage (Commercial only)		
General/Specific & Passage Rate		2/3 supermajority vote required		
Legally Required Exemptions		Properties exempt from the general 1 percent ad valorem (property) tax are exempt from parcel tax.		
Rate Structure		Flat Rate per Sq Ft (excludes residential properties)		
		Small 2,500 sq ft	Medium 30,000 sq ft	Large 100,000 sq ft
Avg Annual Fee & Tax Rate per Unit	1% of GF = \$2.3M	Avg fee: \$275/parcel Tax Rate: \$0.1099/sq foot	Avg fee: \$3,298/parcel Tax Rate: \$0.1099/sq foot	Avg fee: \$10,994/parcel Tax Rate: \$0.1099/sq foot
	5% of GF = \$11.6M	Avg fee: \$1,374/parcel Tax Rate: \$0.5497/sq foot	Avg fee: \$16,491/parcel Tax Rate: \$0.5497/sq foot	Avg fee: \$54,971/parcel Tax Rate: \$0.5497/sq foot
	10% of GF = \$23.2M	Avg fee: \$2,749/parcel Tax Rate: \$1.0994/sq foot	Avg fee: \$32,983/parcel Tax Rate: \$1.0994/sq foot	Avg fee: \$109,973/parcel Tax Rate: \$1.094/sq foot
Examples of Businesses		Cafes/coffee shops, small local/ neighborhood businesses, shops, and small commercial	Office buildings, retail, specialty shopping centers, service stations	International hotel brands, manufacturing
Exemptions by Council Policy		TBD – pending data from Santa Clara County Below are the approximate impacts of exemptions, based on CoStar data.		
		1% GF: \$25,600 10% GF: \$255,975	1% GF: \$68,710 10% GF: \$687,100	1% GF: \$1,027,312 10% GF: \$10,273,125
		Total: 233,000 sq ft	Total: 625,000 sq ft	Total: 9,344,070 sq ft
Total Annual Revenue Estimate & Assumptions		Revenue generated would depend on the tax rate adopted and exemptions chosen. The rates modeled above include the following assumptions/adjustments: - Legally required exemptions.		
Data Sources		Components of necessary data is available from the following sources: Santa Clara County, City's Property Tax consultant, and subscription databases such as CoStar. - Analysis is modeled based on data from Santa Clara County		
Equity, Administration, Stability, Economic Benefits Framework (E-A.S.E.)	E	A rentable building square feet tax aligns the tax with both the size and potentially the property types it is assessed on which would be considered more progressive. However, this would more closely align with the physical space necessary for a business, as opposed to alternative variable which might align more with daytime population. For example, it would impact businesses such as manufacturing which requires significant space for machinery.		
	A	Administration for a parcel tax is done through Santa Clara County (SCC) and included in the property owner's property tax bill.  <i>Administrative Costs:</i> Consultant services and internal staff needed in order to calculate assessment for the County. SCC assesses an administrative fee for collection of the tax.		
	S	Very stable with low volatility.		
	E	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.		

The parcel tax square footage unit of measure requires property owners to pay based on the square feet of the building on the parcel. Generally, properties that are exempt from the general 1 percent ad valorem (property) tax are exempt from a parcel tax. The most reliable data source for this tax method and unit of measure is data from the Santa Clara County Assessor's Office. Although the square footage parcel tax method appears to be like the



business tax based on square footage unit of measure, the legal parameters and administration are different.

Data from the County is organized by land use category and then further grouped into various types of land use by parcel, which may limit the type of policy directed exemptions that Council may select. For example, Council identified the retail industry as one of the categories to further analyze for potential impacts. The shopping center land use category contains only three broad sub-groupings: regional, community, and neighborhood. A shopping center parcel can contain a variety of commercial business including retail, restaurants, professional services, and grocery stores. Since a type of parcel can be rented or leased to a variety of different industry types, administration of policy selected exemptions may be a challenge. Acknowledging this challenge, additional staff research would need to be done to determine if alternative options are available to enforcing/administering policy directed exemptions.

Where a business tax can be considered either a general tax (requiring simple majority voter approval to pass) or a special tax (requiring 2/3 supermajority voter approval), a parcel tax is considered a special tax and requires a 2/3 supermajority vote approval for a specified purpose (California Government Code Section 50075 et seq.). Per California Government Code Section 50075.1, all special tax measures are subject to accountability measures that include a statement detailing the specific purposes of the tax, separate accounts where the proceeds shall be deposited, and an annual report that discloses the amount of funds collected and expended and the status of any project required or authorized to be funded by the tax proceeds. Although it would be relatively small, these requirements would pose an additional administrative burden.

Administration of a parcel tax would be done through the County, included in the property tax roll. An administration fee would be incurred and netted against the gross parcel tax receipts. The parcel tax assessment would be calculated by staff or a consultant and provided to the County to include in the upcoming property tax bill.

Method/Unit of Measure		Business Tax – Head Count Assessed on a business based on number of employees			
General/Specific & Passage Rate		General Tax: simple majority vote (50 percent plus one additional voter) Special Tax: 2/3 supermajority vote			
Legally Required Exemptions		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.			
Rate Structure		Flat Rate (modified EE count 40,625)	Tier Rate Structure		
			Small 7 employees	Medium 375 employees	Large 700 employees
Avg Annual Fee & Tax Rate per Unit	1% of GF = \$2.3M	Avg fee: \$855 Tax Rate: \$57/EE	Avg fee: \$83 Tax Rate: \$59+\$4/ EE over 1	Avg fee: \$19,530 Tax Rate: \$355+\$59/ EE over 50	Avg fee: \$42,505 Tax Rate: \$26,905+\$78/ EE over 50
	5% of GF = \$11.6M	Avg fee: \$4,290 Tax Rate: \$286/EE	Avg fee: \$406 Tax Rate: \$292+\$19/ EE over 1	Avg fee: \$96,623 Tax Rate: \$1,723+\$292/ EE over 50	Avg fee: \$210,923 Tax Rate: \$133,123+\$389/ EE over 50
	10% of GF = \$23.2M	Avg fee: \$8,565 Tax Rate: \$571/EE	Avg fee: \$818 Tax Rate: \$584+\$39/ EE over 1	Avg fee: \$193,270 Tax Rate: \$3,470+\$584/ EE over 50	Avg fee: \$421,870 Tax Rate: \$266,270+\$778/ EE over 50
Examples of Businesses		N/A	Information, Finance, Insurance, Real Estate, Rental, Leasing, Professional, Scientific, Technical	Professional, Scientific, Technical	Information, Professional, Scientific, Technical
Exemptions by Council Policy		By NAICS code: - Retail/Trade: 241 businesses, 5,123 employees; \$144K total tax revenue - Accommodation and Food Service: 211 businesses, 6,005 employees; \$145K total tax revenue 1% GF: \$634K      1% GF: \$284,677      Retail/Trade: \$141K 10% GF: \$6.4M      10% GF: \$2,839,467      Accommodation/Food Service = \$143K Retail/Trade: \$1.4M Accommodation/Food Service = \$1.4M EE's: 11,128			
Total Annual Revenue Estimate		Revenue generated would depend on the tax rate adopted and exemptions chosen. The rates modeled above include the following assumptions/adjustments: - Legally required exemptions - Exemptions by Council Policy			
Data Source		The primary data source for this tax method and unit of measure would be data from the EDD or self-reported. The EDD collects business data that is categorized by NAICS code, number of businesses, number or employees, and tiers businesses/employee head count. In-lieu of self-reported data as staff recognizes the gaps in current business data verified databases, such as InfoGroup and the California Secretary of State, are also available. - Analysis is modeled based on data provided by EDD			
Equity, Administration, Stability, Economic Benefits Framework (E.A.S.E.)	E	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. However, businesses that are labor driven will have a higher employee head count and, based on EDD data, have lower average wages, will be bear a higher tax based on employee head count. Examples of these industries are retail, social assistance, and food service/hospitality.			
	A	Establishing criteria that sets the definition of an employee should be included so that businesses are able to accurately report data and remit tax. - 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. - Structure for this tax model would need to define how to address alternative employee definitions such as working from home, contractor, etc. <i>Administrative Costs:</i> Consultant services and internal staff would be needed in order to administer this tax – the ratio of staffing to consultant would need to be determined.			
	S	Tax revenue driver is directly related to how many businesses are in the City and the number of employees at each business. Depending on how the policy is developed and how the tax definitions are			

Method/Unit of Measure		<b>Business Tax – Head Count</b> <b>Assessed on a business based on number of employees</b>
		written, the basis will be impacted 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.
	<b>E</b>	From an operational standpoint of the taxpayer, the employee head count measure is data that can be obtained through quarterly EDD reporting or the business' employee database. This 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

According to the Consultant Study's review of comparable agencies, the employee head count unit of measure is the most-used unit of measure for a business tax. At a baseline, the employee head count unit of measure can define a variety of ways that would result in a straightforward tax or layers of complexity can be added that would result in a tax that could be challenging to manage. In addition, since this unit of measure is based on employee head count and the influx of the daytime population in the City, the tax revenue resources would be directly correlated to this daily phenomenon.

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.

The primary data source for the employee head count unit of measure is from the California Employment Development Department (EDD). State payroll taxes are submitted quarterly and data is received by the EDD for total wages and number of employees and are categorized by the North American Industry Classification System (NAICS) code. NAICS codes range from 2-digits to 6-digits, which allows Council more flexibility to select exemptions by policy, but the codes do not indicate which businesses are non-profits. Additional data at a more detailed level would need to be requested of the EDD to further refine modeling for legally required exemptions (i.e. small residential care facilities, and small home childcare facilities). Reports can be requested of the EDD at regular intervals, depending on the defined needs.

Based on EDD data presented in the previous Consultant Study, there are 97,350 employees working within City limits, excluding federal and local government employees. Using broad NAICS code categories, the modeling in the Consultant Study assumes that 45,596 employees work in the educational services, health care and social assistance, religious, grantmaking, and civic non-profit industries. For modeling purposes and to illustrate a flat employee head count tax rate, a total number of 40,625 non-exempted employees was assumed and excludes legally required exemptions and other exemptions that Council has expressed interest in (retail, restaurants, hospitality). The total employee count will decrease, should the Council select additional exemptions.

In addition to a potential flat tax rate for each employee, a tier structure can be selected that can be progressive (rates increase as employee head count increases) or regressive (rates

decrease as employee head count increases). The above table provides examples of the type of businesses that fall under a small, medium, or large business. For context of employment size, below is a list of the number of businesses by employment size:

- 0-4 EE's = 1,777
- 5-9 EE's = 300
- 10-19 EE's = 234
- 20-49 EE's = 215

To clarify administration of the tax, the definition of who is considered an employee to be counted in this unit of measure would need to be clearly defined and would need to address various alternative employment models (i.e. telecommuters, consultants/contract employees, part-time staff) in the definition of an employee.

Method/Unit of Measure		Business Tax – Square Footage Assessed on a business based on occupied square footage			
General/Specific & Passage Rate		General tax: simple majority vote (50 percent plus one additional voter) Special tax: 2/3 supermajority vote			
Legally Required Exemptions		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.			
Rate Structure		Flat	Tier Rate Structure		
			Small 2,500 sq ft	Medium 30,000 sq ft	Large 100,000 sq ft
Avg Annual Fee & Tax Rate per Unit	1% of GF = \$2.3M	Avg fee: \$2,200 Tax Rate: \$0.09/sq ft	Avg fee: \$109 Tax Rate: \$0.0438/sq ft	Avg fee: \$990 Tax Rate: \$0.0330/sq ft	Avg fee: \$2,720 Tax Rate: \$0.0272/sq ft
	5% of GF = \$11.6M	Avg fee: \$11,015 Tax Rate: \$0.45/sq ft	Avg fee: \$547 Tax Rate: \$0.2187/sq ft	Avg fee: \$34,959 Tax Rate: \$0.1653/sq ft	Avg fee: \$13,610 Tax Rate: \$0.1361/sq ft
	10% of GF = \$23.2M	Avg fee: \$22,030 Tax Rate: \$0.90/sq ft	Avg fee: \$1,095 Tax Rate: \$0.4379/sq ft	Avg fee: \$9,927 Tax Rate: \$0.3309/sq ft	Avg fee: \$27,240 Tax Rate: \$0.2724/sq ft
Examples of Businesses in this Tier		N/A	Cafes/coffee shops, small local/neighborhood businesses and shops	Office buildings, retail, specialty shopping centers, service stations	International hotel brands, manufacturing
City Chosen Exemptions		TBD – pending data availability from a verified resource Based on CoStar data, below are the approximate impacts of exemptions			
		1% GF: \$918,170 10% GF: \$9,181,670  Sq Ft: 10,202,070	1% GF: \$10,200 10% GF: \$101,955  Sq Ft: 233,000	1% GF: \$22,624 10% GF: \$206,800  Sq Ft: 625,000	1% GF: \$254,160 10% GF: \$2,545,325  Sq Ft: 9,344,070
Total Annual Revenue Estimate		Revenue generated would depend on the tax rate adopted and exemptions chosen. The rates modeled above include the following assumptions/adjustments: - Legally required exemptions			
Data Source		The source of compliance data would be an actively maintained and updated third-party real estate database, corroborated with data from Santa Clara County.			
Equity, Administration, Stability, Economic Benefits Framework (E.A.S.E.)	E	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.  This tax model would place heavier tax burden on industries that require larger square footage to operate, such as manufacturing.			
	A	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.  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).  <i>Administrative Costs:</i> Consultant services and internal staff would be needed in order to administer this tax – the ratio of staffing to consultant would need to be determined.			
	S	Tax is assessed on commercial square footage and, although some exemptions can be made to encourage certain industries to expand in the City, overall revenue growth using this model will be limited based on policy decisions related to commercial space in the City.			
	E	This tax model would appear to inhibit square footage growth which typically is one way to assist in increasing the value of the City's property tax roll. 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.			

Although the square footage unit of measure can be applied to both a business tax and a parcel tax, the legal basis, parameters, and requirements are very different. Where the focus of a

parcel tax based on square footage is based on land use, as a business tax, this unit of measure can correlate to the industry type. While a parcel tax is assessed together with the property owner's property tax bill, a business tax based on square footage would be directly billed to the business owner. Use of space by a business would be self-reported and, from an administrative perspective, whether the tax is applicable to common areas and space not actually used by businesses would need clarification or simply be excluded in the business tax language.

Compared to the employee head count unit of measure, where data is from a regulatory entity and reporting is mandatory and audited, obtaining data that accurately reflects the City's business population, square footage usage, and industry for refined modeling of a business tax based on square footage was a challenge. Therefore, from an administrative and regulation standpoint, data used for verifying self-reported square footage would need to be compiled from a variety of sources and additional staff or consultant assistance would be required to regulate a square footage business tax.

The legal requirements for a square footage business tax are the same as those for a business tax based on employee head count. The tax can be structured as a general tax, requiring a simple majority vote, or a special tax, requiring 2/3 supermajority vote. The legally required exemptions are also the same and include non-profit or charitable organizations, banks and other financial institutions that pay the state in-lieu tax, small residential care facilities, and small home childcare facilities.

#### Updated Business Tax Consultant Study

The City engaged Matrix Consulting Group (Matrix) to conduct research, modeling, and analysis of a potential business tax. The study, Business License Tax Program Comparative Assessment and Revenue Projections (Consultant Study), was presented and discussed with the Finance Committee on August 20, 2019 ([CMR 10445](#)), and with City Council on September 16, 2019 ([CMR 10615](#)). Staff, under direction of the Council, was asked to provide additional research and refined analysis and modeling as a follow up to Matrix's initial report. The revised Consultant Study (**Attachment A**) is attached to this staff report, which was used for the above tables that outline business tax options.

The revised Consultant Study focuses on several areas, as directed by Council on September 16, 2019. Specially, the areas that the Consultant Study addresses are:

- A general business tax measure focused on head count or square footage as the units of measure;
- Refined analysis on potential exemptions and tiered tax rate structures with the following guidance: maintaining estimated revenue generation between 1 and 10 percent of General Fund revenues, focus on implications regarding retail, restaurants, hospitality, and medical industries, and keeping potential tax structures simple and modern minimizing exemptions; and,
- An information sheet on San Francisco and East Palo Alto's various business taxes.

### *Information Sheet for Various Business Taxes in San Francisco and East Palo Alto*

In addition to refined analysis, the Council also requested additional, more detailed information for all taxes assessed on businesses in San Francisco and East Palo Alto. Summaries for both can be found in Section 6 of the attached Consultant Study (Attachment A).

### *Staffing Levels for Business Tax Administration, Collection, and Audit Program*

Matrix also conducted additional research for comparable agencies related to staffing levels for administration, collection, and audit program. Findings are discussed in Section 5.4 of the attached Consultant Study. Overall, the selected comparable agencies administer and collect the business tax internally while the audit function is either done internally or by a consultant.

### *Business Tax: Employee Headcount*

Based on selected comparable agencies in the Consultant Study, the employee headcount business tax model is the most commonly used business tax type, and perhaps the simplest form of a business tax. The employee head count model applies a tax rate, either flat or tiered, to the number of people a business employs within the City's boundaries. For modeling purposes, the initial Consultant study applied employee head count rates used by the City of Mountain View.

As directed by Council, to provide more refined analysis, staff requested additional data from the California Employment Development Department (EDD). Two groups of data were received. The first data set grouped the number of businesses into employee head count ranges (i.e. 0-4 employees, 5-9 employees, 10-19 employees, etc.). The second data set displayed the number of employees that fell into each employee head count range. Both data sets provided aggregate totals, however due to EDD's confidentiality restrictions, the Consultant Study outlines made assumptions account for suppressed businesses and employee counts.

The new data sets, in addition to suppressed business and employee head count data as a data limitation, embedded business and employee head count data related to businesses within the Stanford area. Business transacted outside of City limit and within the Stanford area would not be subject to a local business tax. To remove Stanford businesses and employee head count data from the revised models, data previously provided by the EDD detailing businesses and employees was averaged and reduced from calculated totals in the revised modeling. More information can be seen in Section 5 of the Consultant Study.

Under state or federal law, some businesses and occupations are exempt from local business taxation. These business types 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. The EDD categorizes businesses based on the North American Industry Classification System (NAICS) and does not provide indicators or distinguish for these exemptions. The Consultant Study assumes that all businesses in the health care and social assistance, and religious, grantmaking, civic and professional categories (NAICS #62 and #813) are non-profit organizations.

### *Business Tax: Square Footage*

The second business tax measure type that was reviewed in the updated Consultant Study was a business tax based on square footage. The updated Consultant Study uses data from InfoGroup which, compared to data from CoStar and the City Business Registry Certificate Program (BRC), had the largest census population of businesses. Although the data set from InfoGroup contained the largest census on businesses within the City, the data was limited in specific measurements and does not include industry type data. Both these factors limit the models for legally required or policy directed exemptions in the revised Consultant Study.

The Consultant Study presents the estimated potential revenue range using City of Cupertino (the only comparable agency that uses the square footage model) for the rate and would yield business tax revenue between 0.4 percent and 1.4 percent of General Fund revenue. Like the employee head count analysis, the Consultant Study models the percent of the City of Cupertino rates needed to achieve between one to 10 percent of General Fund revenue.

### Workplan Update

Following the September 16, 2019 Council meeting, staff presented a revised revenue generating ballot measure timeline to the Finance Committee. The updated workplan outlines key decision points for the City Council and Finance Committee and details anticipated staff and consultant work to be completed before the end of June. On December 2, 2019, Council gave staff direction to proceed with initial polling based on an outline and framework presented to Council. Initial polling is the first of two rounds and the purpose of the first round is to gain an understanding of how voters view various elements that may be part of a ballot measure. A second, more refined and developed poll, will build upon the initial poll and be informed by outreach efforts and discussion of analysis and modeling. The initial poll is set to be completed in December/January and the second round of polling is scheduled to be completed in the spring. Stakeholder outreach is set to begin around the same timeline as the initial polling and will continue through the end of March.

Staff expects to bring forward to the City Council an update early 2020 in all three components, polling, outreach, and analysis for this project.

### **Stakeholder Outreach**

The Administrative Services Department has worked closely with the City Manager's Department, the Finance Committee, and the City Council. The history of City Manager's Reports on this topic can be found in Attachment B. The framework and approach for polling and outreach was approved by Council on November 4, 2019 (CMR [10792](#)). Based on these discussions and direction to staff, the City's consultants, FM3 (polling) and TBWB (outreach) have begun work.



**Resource Impact**

The 2019 Fiscal Sustainability workplan identified this project as one that was not resourced by staffing or consultant funding. The cost to perform modeling and analysis was approved on September 16, 2019 (CMR [10615](#)) and polling and outreach funding was approved on November 4, 2019 (CMR [10792](#)).

**Environmental Review**

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

**Attachments:**

- Attachment A: Consultant Report from Matrix Consulting Group
- Attachment B: Ballot Measure Staff Reports to Finance Committee and Council

# **Business License Tax Program Comparative Assessment and Initial Revenue Projections**

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CITY OF PALO ALTO, CALIFORNIA



**December 3, 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
<b>Palo Alto</b>	<b>66,649</b>	<b>5,496</b>

### 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	BLT Revenue as % of Total General Fund Revenue	Revenue Per Business
Cupertino	\$876,000	1%	\$230
East Palo Alto	\$1,175,000	4%	\$769
Mountain View	\$6,000,000 <sup>1</sup>	4%	\$1,621
Redwood City	\$2,628,000	2%	\$427
San Francisco	\$820,000,000	9%	\$3,388
San Jose	\$72,200,000	6%	\$1,244
San Mateo	\$5,940,000	5%	\$793
Santa Clara	\$915,000	0.5%	\$70
Sunnyvale	\$1,840,000	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.

<sup>1</sup> 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**

<b>Square Foot Range</b>	<b>Tax Rate</b>
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**

<b>Annual Gross Receipts</b>	<b>Annual License Fee</b>
\$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**

<b>Business Classification</b>	<b>Unit Tax</b>
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. Business owners 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
<b>General</b>	\$68	\$45.00 per employee + \$22.00 per part-time
<b>Other:</b>		
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
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/Hawkers	\$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 102,566 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<sub>year</sub>)

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

As shown in the table above, missing revenue is equal to ADM<sub>year</sub>, 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 (Base tax)
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 tables provide the tax structure for the three classifications utilized:

#### **Santa Clara Commercial Employee Tax Structure**

Number of Employees	Business License Tax (Commercial)
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 Professional Employee Tax Structure

Number of Employees	Business License Tax (Professional)
1	\$15
2 - 3	\$30
4 - 6	\$70
7 - 10	\$90
11 - 20	\$115
21 - 25	\$175
26 - 35	\$225
36 - 40	\$280
41 - 45	\$330
46 - 50	\$380
51 - 55	\$460
56 +	\$500

#### Santa Clara Manufacturing Employee Tax Structure

Number of Employees	Business License Tax (Manufacturing)
1 – 3	\$15
4 – 20	\$45
21 – 30	\$65
31 – 50	\$100

Number of Employees	Business License Tax (Manufacturing)
51 – 75	\$135
76 – 100	\$175
101 – 125	\$225
126 – 175	\$280
176 – 225	\$330
226 – 300	\$380
301 – 400	\$460
401 +	\$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 applying the designated fee. It is important to note that the Santa Clara tax is not per employee but a flat fee per size category. 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	102,556
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 102,000 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	BLT Revenue as % of GF Total Revenue	Revenue Per Business
Cupertino	\$876,000	1%	\$230
East Palo Alto	\$1,175,000	4%	\$769
Mountain View	\$6,000,000	4%	\$1,621
Redwood City	\$2,628,000	2%	\$427
San Francisco	\$820,000,000	9%	\$3,388
San Jose	\$72,200,000	6%	\$1,244
San Mateo	\$5,940,000	5%	\$793
Santa Clara	\$915,000	0.5%	\$70
Sunnyvale	\$1,840,000	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. 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 <sup>2</sup>	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 exception of Cupertino, offer exemptions to the business license tax: All jurisdiction, with the exception of Cupertino, offer exemptions to a variety of businesses. The most common exemptions include: Non-Profits and Charitable Organizations.

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

- **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**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
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
1 <sup>1</sup>	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 <sup>2</sup>
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.

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

<sup>2</sup>High 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**

<b>Square Feet Tiers</b>	<b>Rate per Sq. Ft.</b>
0-5,000	\$0.0397
5,001-25,000	\$0.0346
25,001-75000	\$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
<b>Totals Provided by EDD</b>		<b>4,211</b>	<b>103,921</b>	<b>\$16,207,173,501</b>			
<b>Totals Excluding Federal and Local Govt.</b>		<b>4,138</b>	<b>97,350</b>	<b>\$15,569,473,920</b>			

## 5 Updated BLT Revenue Projections

After the Finance Committee meeting in August and the Council discussion in September, additional research was conducted to further refine the revenue projections in alignment with direction from the Council. The specific direction provided by the Council regarding the business license tax program parameters are summarized in the following points excerpted from the Council motion:

“A. Direct Staff to continue work regarding a potential revenue generating ballot measure with the following parameters:

a. Consider a general business tax measure focused on head count or square footage as the units of measure;

...

d. Continue further refined analysis on potential exemptions and tiered tax rate structures with the following guidance: maintaining estimated revenue generation between 1 and 10 percent of General Fund revenues, focus on implications regarding retail, restaurants, hospitality, and medical industries, and keeping potential tax structures simple and modern minimizing exemptions;

...

h. Direct staff to compile an information sheet detailing San Francisco and East Palo Alto's various business taxes;

....”

Additional and updated data was provided by EDD to enable a more refined analysis of the head count revenue generation ability. No change was made in the data utilized for the square footage method as no better data source could be acquired that provided sufficiently detailed data on individual businesses (by industry) that provided the specific square footage attributable to each business entity.

### 1. Project Background and Methodology

Matrix Consulting Group was tasked with updating and refining the financial models for two different business license structures based on the following approaches:

- Number of employees per business.
- Square footage utilized by 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.

## 2. Model 1: Employee Count

The first business license model calculates business tax based on the total number of employees at any given business. Data utilized in this assessment was provided by EDD. One limitation of this data is that it is provided at an aggregated level by major industry classification which limits the ability to refine exemptions (ensuring that each individual industry is appropriately included or excluded) and depending on classification, exclusions for businesses related to Stanford University are not able to be removed from the data set. Information utilized was from the 4<sup>th</sup> Quarter of 2018.

To clean up the data and address the fact that a sizeable portion of the dataset had data suppressed to prevent disclosure of confidential information, the project team made the following assumptions regarding the suppressed firms and employee counts:

- For each business category based on employee size, the project team assumed any firm in that size category would be at the median of the range (i.e. – for business category size 5 – 9 we assumed the firm would have 7 employees.
- Based upon the missing firms and knowing the size of the missing firms, the project team utilized a “best fit” approach to allocate the firms to size categories in a manner that accounted for all “missing employees”.
- This approach enables the data to include all firms in the data set and eliminate the majority of the “missing employees” that were due to the suppressed data enabling the final projections to be more accurate and reflective of the actual business environment in the City of Palo Alto.

The estimate utilizing the Mountain View rates would generate an estimate annual business license tax revenue of \$2,800,665 annually excluding State and Federally mandated exemptions, which are health care, non-profit and charitable organizations. Using the NAICS codes 62 (Total Health Care and Social Assistance) and 813 (Total Religious, Grantmaking, Civic, professional and similar entities) represent foregone revenue of approximately \$2,329,770. Data available does not provide information on the specific types of firms within each NAICS code (either the number of firms or number of employees) at a level of detail that enables analysis beyond the higher-level NAICS codes. As such, when these codes are excluded, it may remove some firms that would be subject to the business license tax program and as such would underestimate revenue potential as those firms are not included in the model. The other industry for potential exclusion is education services. If this industry were excluded, it would represent \$478,685 annually in foregone revenue.

The Council identified several industry types where additional analysis and total industry impact was requested to consider potential local exemptions. These industry types are accommodation, retail trade and food services – three industries currently impacted by other local taxes including hotel and sales taxes. The annual foregone revenue associated with not imposing a business license tax on these industries is estimated at \$364,970.

The following table summarizes the overall revenue estimates based upon the modeling conducted utilizing the existing Mountain View rates applied to the City of Palo Alto's business sector:

Industries Included	Annual Revenue Potential
Total BLT Revenue if all businesses in the City of Palo Alto are subject to the business license tax	\$5,974,090
Adjustment for Federal / State Exemptions	(\$2,808,455)
Adjustment for Potential Local Exemptions	(\$364,970)
<b>Estimated Annual Revenue (excluding exemptions)</b>	<b>\$2,800,665</b>

Many of the tables utilized in this report present data based upon by major NAICS industry classification. Detail on the specific NAICS codes, and the types of businesses located within each classification, can be found at <https://www.naics.com/search/>.

#### (a) Revenue Projections for Business License Tax Program

The following table summarizes the revenue generation potential based upon these assumptions and parameters by industry and business size. Included industries, and the estimated revenue potential associated with firms in these industries, are detailed for each size category. As shown, there is the potential to achieve \$2,800,665 annually from a business license tax program based on the Mountain View rates. A table showing the total number of firms within each size category by industry is provided in Appendix A.

**Potential Annual Business License Tax Revenue  
By Industry and Firm Size**

Industry	Firms	Employment	1 0-4	2 5-9	3 10-19	4 20-49	5 50-99	6 100-249	7 250-499	8 500-999	9 1000+	Total By Industry
1100 Total Agriculture, Forestry, Fishing and Hunting	8	12	\$ -	\$ 95	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 95
2300 Total Construction	87	808	\$ 2,100	\$ 1,690	\$ 1,185	\$ 1,770	\$ 4,660	\$ 9,830	\$ -	\$ -	\$ -	\$ 21,235
3100 Total Manufacturing	9	132	\$ 150	\$ 105	\$ 435	\$ 590	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,280
3200 Total Manufacturing	16	46	\$ 1,050	\$ 105	\$ 145	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,300
3300 Total Manufacturing	76	5,481	\$ 1,875	\$ 1,035	\$ 840	\$ 1,180	\$ 1,965	\$ 22,070	\$ 49,660	\$ 118,390	\$ 146,695	\$ 343,710
4200 Total Wholesale Trade	79	1,202	\$ 825	\$ 1,250	\$ 930	\$ 2,010	\$ 6,990	\$ 9,830	\$ 24,830	\$ -	\$ -	\$ 46,665
4800 Total Transportation and Warehousing	11	222	\$ 525	\$ -	\$ 145	\$ -	\$ 2,330	\$ 6,080	\$ -	\$ -	\$ -	\$ 9,080
5100 Total Information	247	14,689	\$ 4,650	\$ 3,025	\$ 3,645	\$ 7,190	\$ 17,005	\$ 44,650	\$ 74,640	\$ 118,390	\$ 440,085	\$ 713,280
5200 Total Finance and Insurance	237	3,016	\$ 6,300	\$ 3,700	\$ 4,785	\$ 5,840	\$ 13,980	\$ 9,830	\$ 49,660	\$ -	\$ -	\$ 94,095
5300 Total Real Estate and Rental and Leasing	179	1,302	\$ 4,350	\$ 1,810	\$ 1,885	\$ 2,780	\$ 9,320	\$ 9,830	\$ -	\$ -	\$ -	\$ 29,975
5400 Total Professional, Scientific, and Technical Services	996	22,247	\$ 21,375	\$ 11,460	\$ 11,325	\$ 23,435	\$ 64,150	\$ 186,040	\$ 214,400	\$ 118,390	\$ 440,085	\$ 1,090,660
5500 Total Management of Companies and Enterprises	19	3,678	\$ -	\$ 305	\$ 870	\$ 590	\$ 2,330	\$ 9,830	\$ -	\$ -	\$ 293,390	\$ 307,315
5600 Total Administrative and Support and Waste Management	126	2,092	\$ 2,025	\$ 2,175	\$ 1,970	\$ 2,480	\$ 21,725	\$ 37,065	\$ -	\$ -	\$ -	\$ 67,440
7100 Total Arts, Entertainment, and Recreation	50	875	\$ 825	\$ 710	\$ 970	\$ 1,805	\$ 4,660	\$ 19,660	\$ -	\$ -	\$ -	\$ 28,630
81 Total Other Services (except Public Administration)	549	2,371	\$ 6,075	\$ 3,370	\$ 3,025	\$ 4,365	\$ 10,155	\$ 18,915	\$ -	\$ -	\$ -	\$ 45,905
<b>TOTAL</b>	<b>2689</b>	<b>58,173</b>	<b>\$ 52,125</b>	<b>\$ 30,835</b>	<b>\$ 32,155</b>	<b>\$ 54,035</b>	<b>\$ 159,270</b>	<b>\$ 383,630</b>	<b>\$ 413,190</b>	<b>\$ 355,170</b>	<b>\$ 1,320,255</b>	<b>\$ 2,800,665</b>

Excluded industries, and foregone revenue potential associated with firms in these industries, are represented in the following tables. All of these exemptions are based upon the City-designated potential exemptions (accommodation, food service, retail trade, and hospitality) with the exception of businesses in industries 6100 (educational), 62 (Health Care and Social Assistance) and 813 (Religious, Grantmaking, etc.) which represent the industries typically exempted under either federal / state requirements (such as non-profits) or which may include significant Stanford related businesses.

**State/Federal Exempted Industries  
By Industry and Firm Size**

Industry	Firms	Employment	1 0-4	2 5-9	3 10-19	4 20-49	5 50-99	6 100-249	7 250-499	8 500-999	9 1000+	Total By Industry
6100 Total Educational Services	100	21,307	\$ 2,325	\$ 2,065	\$ 2,020	\$ 3,050	\$ 9,480	\$ 19,660	\$ -	\$ -	\$ 440,085	\$ 478,685
62 Total Health care and social assistance	866	23,387	\$ 19,200	\$ 6,925	\$ 6,920	\$ 5,770	\$ 17,435	\$ 63,940	\$ 60,615	\$ -	\$ 2,122,210	\$ 2,303,015
813 Total Religious, grantmaking, civic, professional, and similar	60	902	\$ 2,175	\$ 785	\$ 845	\$ 1,470	\$ 11,650	\$ 9,830	\$ -	\$ -	\$ -	\$ 26,755
<b>TOTAL</b>	<b>1026</b>	<b>45,596</b>	<b>\$ 23,700</b>	<b>\$ 9,775</b>	<b>\$ 9,785</b>	<b>\$ 10,290</b>	<b>\$ 38,565</b>	<b>\$ 93,430</b>	<b>\$ 60,615</b>	<b>\$ -</b>	<b>\$ 2,562,295</b>	<b>\$ 2,808,455</b>

**Potential Local Exempted Industries**



## By Industry and Firm Size

Industry	Firms	Employment	1 0-4	2 5-9	3 10-19	4 20-49	5 50-99	6 100-249	7 250-499	8 500-999	9 1000+	Total By Industry
4400 Total Retail Trade	173	3,145	\$ 4,275	\$ 5,035	\$ 5,170	\$ 3,955	\$ 26,315	\$ 42,175	\$ -	\$ -	\$ -	\$ 86,925
4500 Total Retail Trade	68	1,978	\$ 2,025	\$ 1,035	\$ 1,265	\$ 1,085	\$ 2,330	\$ 12,160	\$ 74,490	\$ -	\$ -	\$ 94,390
7200 Total Accommodation and Food Services	211	6,005	\$ 1,875	\$ 3,640	\$ 6,450	\$ 15,675	\$ 42,715	\$ 88,470	\$ 24,830	\$ -	\$ -	\$ 183,655
<b>TOTAL</b>	<b>452</b>	<b>11,128</b>	<b>\$ 8,175</b>	<b>\$ 9,710</b>	<b>\$ 12,885</b>	<b>\$ 20,715</b>	<b>\$ 71,360</b>	<b>\$ 142,805</b>	<b>\$ 99,320</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 364,970</b>

If the City were to include any of these industries into the business tax program, the projected annual revenue from that modification is shown in the last column of the table. For example, if all accommodation and food services businesses were included (NAICS code 7200) in the program this would increase annual revenue by \$183,655 annually.

The following table provides more detailed information regarding specific industries where data was available at a more refined level. These amount are already included in the higher level NAICS code and therefore are included in the projections. This data is presented only for the purpose of background information to provide relevant data to facilitate discussion or understand the potential impact on specific industry impacts. For example, NAICS code 722 – Total Food Services and Drinking Places would represent annual revenue business license tax revenue of \$143,365 if included in the program. This amount is already included in the prior table under NAICS code 7200.

Industry	Firms	Employment	1 0-4	2 5-9	3 10-19	4 20-49	5 50-99	6 100-249	7 250-499	8 500-999	9 1000+	Total By Industry
5112 Total Software publishers	95	6,511	\$ 3,225	\$ 810	\$ 985	\$ 2,615	\$ 8,575	\$ 9,830	\$ 24,830	\$ -	\$ 440,085	\$ 490,955
518 Total Data processing, hosting, and related services	61	1,179	\$ 1,050	\$ 715	\$ 1,840	\$ 1,650	\$ 2,330	\$ 9,830	\$ -	\$ 59,195	\$ -	\$ 76,610
519 Total Other information services	55	5,222	\$ 75	\$ 420	\$ 540	\$ 1,750	\$ 4,440	\$ -	\$ 24,830	\$ 59,195	\$ 146,695	\$ 237,945
721 Total Accommodation	24	925	\$ 75	\$ 410	\$ 440	\$ 1,460	\$ 8,415	\$ 21,915	\$ -	\$ -	\$ -	\$ 32,715
722 Total Food Services and Drinking Places	187	5,080	\$ 1,800	\$ 3,230	\$ 6,010	\$ 14,215	\$ 34,300	\$ 58,980	\$ 24,830	\$ -	\$ -	\$ 143,365
621 Total Ambulatory health care services	274	3,575	\$ 8,475	\$ 5,120	\$ 5,095	\$ 3,635	\$ 4,660	\$ 19,140	\$ 24,830	\$ -	\$ 146,695	\$ 217,650
623 Total Nursing and Residential Care Facilities	10	1,008	\$ 150	\$ -	\$ 145	\$ -	\$ 9,090	\$ 23,565	\$ 24,830	\$ -	\$ -	\$ 57,780
811 Total Repair and Maintenance	31	309	\$ 1,200	\$ 615	\$ 1,160	\$ 295	\$ 2,330	\$ -	\$ -	\$ -	\$ -	\$ 5,600
812 Total Personal and Laundry Services	63	679	\$ 1,425	\$ 1,350	\$ 790	\$ 2,655	\$ 2,330	\$ 9,830	\$ -	\$ -	\$ -	\$ 18,380
6240 Total Social Assistance	580	1,972	\$ 10,650	\$ 1,805	\$ 1,680	\$ 1,975	\$ 6,990	\$ 9,830	\$ 24,830	\$ -	\$ -	\$ 57,760
<b>TOTAL</b>	<b>1,380</b>	<b>26,460</b>	<b>\$ 28,125</b>	<b>\$ 14,475</b>	<b>\$ 18,685</b>	<b>\$ 30,250</b>	<b>\$ 83,460</b>	<b>\$ 162,920</b>	<b>\$ 148,980</b>	<b>\$ 118,390</b>	<b>\$ 733,475</b>	<b>\$ 1,338,760</b>

**(b) Rates to Achieve Specific Percentage of General Fund.**

General Fund Fiscal Year 2020 revenue in the Adopted Budget is \$232.1 million. Therefore, for business license tax revenue to represent 1% of the General Fund would require generation of \$2,320,000 annually. As previously detailed earlier in this chapter, the current projections indicate that utilizing the rates imposed by Mountain View would generate approximately \$2,800,665 or 1.21% of the City of Palo Alto's annual operating budget in new revenue from a business tax program. The following table shows the approximate rates that would need to be imposed to achieve varying levels of the City of Palo Alto's General Fund.

Percentage of Operating Budget Revenue	Annual Revenue	Percent of MV Rates Needed
1%	\$ 2,320,000	78%
2%	\$ 4,640,000	156%
3%	\$ 6,960,000	233%
4%	\$ 9,280,000	311%
5%	\$ 11,600,000	389%
6%	\$ 13,920,000	467%
7%	\$ 16,240,000	545%
8%	\$ 18,560,000	622%
9%	\$ 20,880,000	700%
10%	\$ 23,200,000	778%

For example, to achieve 2% of the City of Palo Alto's annual General Fund in revenue (or approximately \$4,640,000) would require the City of Palo Alto to impose business license tax rates that are 156% greater than the rates utilized by the City of Mountain View.

The following tables shows the current Mountain View Rates and the increase in the rates that would be required to achieve 2% of General Fund operating budget in new revenue. Appendix A provides a complete listing of projected rates that detail the rates that would need to be imposed to achieve between 1 and 10% of General Fund Revenue in 1% increments.



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

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
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

This rate structure would generate approximately 1.21% of the City of Palo Alto's Operating Budget in Business License Tax Revenue. These estimates rates are based on the number of businesses in the City of Palo Alto including federal, state and potential local exemptions.

The following table shows the rates that would need to be imposed to achieve revenue generation equal to 2% of Palo Alto's General Fund operating budget. These estimates rates are based on the number of businesses in the City of Palo Alto including federal, state and potential local exemptions.

**Estimated Rates to Achieve 2% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$117
2 to 25	\$117 + \$8/employee over 1
26 to 50	\$309 + \$18/per employee over 25
51 to 500	\$759 + \$117/employee for each employee over 50 employees
501 to 1,000	\$53,409 + \$156/employee for each employee over 500 employees
1,001 to 5,000	\$131,409 + \$195/employee for each employee over 1,000 employees
5,001+	\$911,409 + \$234/employee for each employee over 5,000 employees

These rates, and all rates shown in Appendix B, would need to be adjusted if the Council were to include any of the currently identified exempted industries. The rates would be reduced slightly if all exemptions shown are not implemented and the rates would increase if additional exemptions were adopted.

The impact on specific sized businesses was estimated to provide additional information regarding fees based upon the amount of revenue targeted from the business license program. The following table shows the annual rate for representative businesses based upon employee counts of 2, 7, 35, 375, 700 or 2,300 employees at each percentage level between 1% and 10% of General Fund revenue.

**Total Business License Tax  
at Varying Proposed Palo Alto Rates**

BLT Revenue	Employees					
	2	7	35	375	700	2,300
Rates for 1% GF	\$ 63	\$ 83	\$ 235	\$ 19,530	\$ 42,505	\$ 193,305
Rates for 2% GF	\$ 125	\$ 165	\$ 489	\$ 38,784	\$ 84,609	\$ 384,909
Rates for 3% GF	\$ 187	\$ 247	\$ 693	\$ 57,913	\$ 126,388	\$ 574,588
Rates for 4% GF	\$ 249	\$ 329	\$ 927	\$ 77,117	\$ 168,442	\$ 767,442
Rates for 5% GF	\$ 311	\$ 406	\$ 1,138	\$ 96,623	\$ 210,923	\$ 959,423
Rates for 6% GF	\$ 373	\$ 488	\$ 1,372	\$ 115,827	\$ 252,977	\$ 1,152,277
Rates for 7% GF	\$ 436	\$ 571	\$ 1,607	\$ 135,357	\$ 295,482	\$ 1,344,282
Rates for 8% GF	\$ 498	\$ 653	\$ 1,831	\$ 154,536	\$ 337,311	\$ 1,535,311
Rates for 9% GF	\$ 560	\$ 735	\$ 2,065	\$ 173,740	\$ 379,365	\$ 1,726,865
Rates for 10% GF	\$ 623	\$ 818	\$ 2,300	\$ 193,270	\$ 421,870	\$ 1,920,170

**(b) BLT Program Revenue Comparisons to other Communities.**

As a point of reference, the following table shows, for each of the comparative entities, the amount of revenue generated as a percentage of their total General Fund revenue.

**Business License Tax Financial Information**

City	Actual Business License Revenue	BLT Revenue as % of Total General Fund Revenue
Cupertino	\$876,000	1%
East Palo Alto	\$1,175,000	4%
Mountain View	\$6,000,000 <sup>3</sup>	4%
Redwood City	\$2,628,000	2%
San Francisco	\$820,000,000	9%
San Jose	\$72,200,000	6%
San Mateo	\$5,940,000	5%
Santa Clara	\$915,000	0.5%
Sunnyvale	\$1,840,000	1%

The major caution that should be considered when developing the rates to be utilized for a business license tax program is the potential, that if the total cost to businesses deviate significantly from those utilized by other communities in the area, to impact decisions regarding business location. If rates are too high in comparison to neighboring communities, this could provide a disincentive for businesses to locate within the City of Palo Alto.

<sup>3</sup> Revenue estimated based on the November 2018 voter approved Measure P employee count-based tax structure

As a point of comparison, the following table show the annual business license tax amount that a representative business would pay in each of the comparable communities that utilize an employee count based business license tax.

**Total Business License Tax**

Community	Number of Employees					
	2	7	35	375	700	2,300
Mountain View	\$ 80.00	\$ 105.00	\$ 295.00	\$ 24,820.00	\$ 94,195.00	\$ 246,695.00
Redwood City	\$ 158.00	\$ 383.00	\$ 1,643.00	\$ 16,943.00	\$ 31,568.00	\$ 103,568.00
San Jose	\$ 401.70	\$ 560.70	\$ 1,451.10	\$ 18,750.30	\$ 38,137.10	\$ 139,977.10
Santa Clara	\$ 30.00	\$ 90.00	\$ 225.00	\$ 500.00	\$ 500.00	\$ 500.00
Sunnyvale	\$ 66.52	\$ 133.04	\$ 465.64	\$ 4,989.00	\$ 9,312.80	\$ 12,638.80

Finally, the following table shows the average cost per employee for a business in the comparable communities that utilize an employee count approach to calculating the annual business license tax amount.

**Average Business License Tax Per Employee**

Community	Number of Employees					
	2	7	35	375	700	2,300
Mountain View	\$ 40.00	\$ 15.00	\$ 8.43	\$ 66.19	\$ 134.56	\$ 107.26
Redwood City	\$ 79.00	\$ 54.71	\$ 46.94	\$ 45.18	\$ 45.10	\$ 45.03
San Jose	\$ 200.85	\$ 80.10	\$ 41.46	\$ 50.00	\$ 54.48	\$ 60.86
Santa Clara	\$ 15.00	\$ 12.86	\$ 6.43	\$ 1.33	\$ 0.71	\$ 0.22
Sunnyvale	\$ 33.26	\$ 19.01	\$ 13.30	\$ 13.30	\$ 13.30	\$ 5.50

### 3. Model 2: Square Footage

The second business tax model uses square footage used by any given business as the basis. 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.

Data from InfoGroup had 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 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. The three data sets that were reviewed for modeling purposes do not include industry type for each business, therefore costing legally mandated and Council identified exemptions (retail, restaurants, hospitality, and medical industries) is not available for the square footage model. This limitation should be

considered when evaluating the amount of revenue to be achieved from this model as the current projects overstate the amount of revenue that can be achieved.

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 the type of commercial space used by companies, therefore the revenue impact of selecting possible exemptions is not included in this model.

### (a) Revenue Projections for Business License Tax Program

Based on the preceding assumptions and parameters, the following table summarizes the potential revenue estimates for the City of Palo Alto.

**Preliminary Square Footage Business License Model**

Square Feet Ranges		Rate per Sq. Ft.	Number of Businesses	Potential Revenue	
Min	Max			Low	High
1 <sup>1</sup>	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 <sup>2</sup>
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.

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

<sup>2</sup>High 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.

The potential revenue for the square footage model would range between \$1,009,946 and \$3,196,958 annually without exemptions. This represents approximately 0.44% to 1.38% of the annual General Fund operating budget annually. For simplicity of projections, we are going to assume the average of these two projections as the annual projected City revenue if this model were utilized – which is \$2,103,452 or 0.91% of the City's annual General Fund operating revenue.

The following table shows the revenue that would be generated at the various percentages between 1% and 10% of annual General Fund operating revenue and the increase that would be required in the rate per square foot to achieve these revenue levels.

Percentage of Operating Budget Revenue	Annual Revenue	Percent of Cupertino Rates Needed
1%	\$ 2,320,000	110%
2%	\$ 4,640,000	221%
3%	\$ 6,960,000	331%
4%	\$ 9,280,000	441%
5%	\$ 11,600,000	551%
6%	\$ 13,920,000	662%
7%	\$ 16,240,000	772%
8%	\$ 18,560,000	882%
9%	\$ 20,880,000	993%
10%	\$ 23,200,000	1103%

The following table shows the rates that would be required as part of the BLT program to achieve each level of the 1% to 10% General Fund operating budget revenue target:

Square Feet Tiers	Cupertino Rate per Sq. Ft.	Rates Required to Achieve Designated Percentage									
		1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
0-5,000	\$0.0397	\$0.0437	\$0.0877	\$0.1314	\$0.1751	\$0.2187	\$0.2628	\$0.3065	\$0.3502	\$0.3942	\$0.4379

5,001-25,000	\$0.0346	\$0.0381	\$0.0765	\$0.1145	\$0.1526	\$0.1906	\$0.2291	\$0.2671	\$0.3052	\$0.3436	\$0.3816
25,001-75,000	\$0.0300	\$0.0330	\$0.0663	\$0.0993	\$0.1323	\$0.1653	\$0.1986	\$0.2316	\$0.2646	\$0.2979	\$0.3309
75,001-100,000	\$0.0247	\$0.0272	\$0.0546	\$0.0818	\$0.1089	\$0.1361	\$0.1635	\$0.1907	\$0.2179	\$0.2453	\$0.2724
100,001-150,000	\$0.0197	\$0.0217	\$0.0435	\$0.0652	\$0.0869	\$0.1085	\$0.1304	\$0.1521	\$0.1738	\$0.1956	\$0.2173
150,001+	\$0.0050	\$0.0055	\$0.0111	\$0.0166	\$0.0221	\$0.0276	\$0.0331	\$0.0386	\$0.0441	\$0.0497	\$0.0552

If a square footage model were imposed for a Palo Alto business license tax program, the projected revenue, if rates similar to Cupertino were utilized, would generate just under 1% of the City of Palo Alto's General Fund operating budget in new revenue annually. As with the employee count model, the City should consider the potential impact on local business if rates are adopted that result in a total financial impact on businesses that deviate significantly from those imposed by comparable communities.

**(b) Annual Impact on Representative Businesses.**

To provide context, the following table summarizes the annual business license tax impact for businesses of varying square footage. For these projections, we have utilized the following sized businesses for modeling to demonstrate the impact: 2,500, 12,500, 30,000, 75,000, and 100,000.

**Estimated Annual BLT Fee  
For Representative Business Sizes**

Square Feet	Rate per Sq. Ft.	Estimated BLT Annual Fee
2,500	\$0.0397	\$ 99.25
12,500	\$0.0346	\$ 432.50
30,000	\$0.0300	\$ 900.00
75,000	\$0.0247	\$ 1,852.50
100,000	\$0.0197	\$ 1,970.00

**4. Business License Tax Program Administration, Staffing Levels and Auditing Approach for Comparable Communities.**

Outreach was conducted to the comparable entities to discern the staffing levels required for administering their business license tax program and the approach that they undertake in auditing submissions. The information received is provided in the following table:

Municipality	Administration & Collection		Audit Program		
	In-House / Contracted	Staff	Y / N	Internal / Contracted	Verification
Cupertino	In-house	2	Yes	Contracted (HdL Companies)	Assessor data, permit data or other available data showing square footage by business.
East Palo Alto	In-house	3	Yes	Internal (Finance)	Outside data sources including data from MuniServices, state and federal tax forms and other requested data from applicants that documents gross receipts.
Mountain View	In-house	5	Yes	Internal (Finance)	Internal data sources including prior applications, supplemented with additional research to identify reported employment. No other specific data sets identified. Supporting documentation requested from applicant, as needed, to support employee count reported.
Redwood City	In-house	4	Yes	Internal (Finance)	Internal Data from prior applications and data available from MuniServices. Supporting documentation requested from applicant, as needed, to support employee count reported.
San Francisco	In-house	25	Yes	Internal (Controller)	State and federal tax forms and other requested data from applicants that documents gross receipts.
San Jose	In-house	9	Yes	Internal (Finance)	Internal data sources including prior applications, supplemented with additional research to identify reported employment. Supporting documentation requested from applicant, as needed, to support employee count reported.
San Mateo	In-house	4	Yes	Contracted (HdL Companies)	State and federal tax forms and other requested data from applicants that documents gross receipts.
Santa Clara	In-house	2	Yes	Internal (City Clerk / Auditor)	Internal data sources including prior applications. Also, verify using government agency websites (County Clerk, State) and use public Information (not specified) to verify. (ex. Claiming contractor they would cross-reference with licensing database). Supporting documentation requested from applicant, as needed, to support employee count reported.
Sunnyvale	In-house	2	Yes	Internal (Finance Department)	Internal data sources including prior applications, federal / state data, supplemented with additional research to identify reported employment. Supporting documentation requested from applicant, as needed, to support employee count reported.

NOTE: Staff allocated to administer the business license tax program are not all dedicated staff and generally are performing other financial duties. For those communities which have an in-



house auditing program, generally this is an additional auxiliary duty for staff and no community has dedicated staff to audit the business license program.

The City of Palo Alto, if it decides to administer a business license tax program internally, should expect that it will need approximately 2 to 3 positions to handle the workload associated with processing the annual business license tax program and to conduct at least some minimal level of auditing. This assumes that there is no capacity within existing staff to handle program implementation and administration. This staffing level would be consistent with the average staffing for the comparatives based upon revenue and number of businesses per staff member. However, as previously noted, these are not dedicated FTEs only focusing on business license tax processing but also perform other duties as the business license tax program generally has a seasonal workload where the majority of work is concentrated in a three to four month time period around the annual renewal period. Alternatively, the City could implement a contracted service model and contract out both the administration and auditing of the business license tax program to one of the several businesses that specialize in this service area.

All of the comparable entities currently administer their business license tax programs internally but many contract with HdL Companies for software and some for the auditing of the returns. In the majority of cases where the auditing of returns is done internally, it is an auxiliary duty of the staff assigned to administer and process business license applications.

For those communities that conduct internal auditing, it is generally done as an informal auditing program as applications are processed rather than a formalized auditing program that routinely looks at a specified percentage of applications annually. The comparable communities are using a variety of data sources for auditing purposes. Those communities which base their business license tax on gross receipts are able to utilize data from state and federal tax forms, sales tax data (for some business types), and similar sources to validate. For those basing on square footage, they are able to compare to information from building permit and/or assessing data sources. Those organizations that base their business license tax on employee counts typically request or access supporting information from the applicant and/or federal and state sources to verify employee counts.

The auditing programs are generally based upon prior data submitted or compared to external data sources that HdL or the City have access to for verification. As noted earlier in the report, the majority of the comparable entities are utilizing an employee head count approach for implementing a business license tax program and available datasets on individual employee counts, by business, are often limited due to confidentiality reasons. The following points provide additional information on the approach taken to auditing the program by each community:

- **Cupertino** – Contracted (HdL Companies) – HdL conducts periodic audits.
- **East Palo Alto** – Contracted – Outside vendor manages audit program.
- **Mountain View** – Internal (City Auditor) – City Auditor audits annually.



- **Redwood City** – Internal (Finance Department) – Finance Department audits when an issue is detected using MuniServices.
- **San Francisco** – Internal (Controller's Office) – Controller's Office conducts periodic tax audits.
- **San Jose** – Internal (City Auditor) – City Auditor conducts annual audit.
- **San Mateo** – Contracted (HdL Companies) – HdL conducts periodic audits, but program is administered in-house.
- **Santa Clara** – Internal (City Clerk/Auditor) – City Clerk / Auditor audits annually.
- **Sunnyvale** – Internal (Finance) – Finance audits when there is an issue detected.

## 6 Business Taxes Imposed by East Palo Alto and San Francisco

The Council requested additional information regarding additional taxes imposed by other communities on businesses, in addition to the business license tax, to get a sense of the total impact on businesses. A review of the comparable communities identified only two other communities that impose an additional tax on businesses – these included East Palo Alto, which has a parcel tax, and San Francisco, which imposes a gross receipts tax. These taxes are in addition to the business license tax imposed by these communities.

The following sections summarize the taxes imposed, the rate of those taxes and the uses for the revenue.

### **East Palo Alto:**

The City of East Palo Alto imposes both a parcel tax and a business license tax for businesses operating in the City. The following sections provide background and additional information regarding each of these two business taxes.

**East Palo Alto Business License Tax:** All entities and persons doing business in the City (including subcontractors, landlords, and home based businesses) must have a current business license. Business licenses are not prorated, and are effective for a calendar year, beginning January 1 to December 31. Business license taxes are also non-refundable.

Please refer to the business license application form for full business license fee schedule. For most business activity, the following rate table applies:

Annual Gross Receipts Between	Annual License Fee
\$0 - \$999 & Initial Fee	\$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 Parcel Tax** (Measure HH Passed in 2018): Imposes a \$2.50 per square foot parcel tax on commercial office real property over 25,000 SF. Property that is 25,000 square feet or less and property that is not used for commercial office purposes, for instance, where the primary business activity is retail trade (except retail trade from non-store retailers), agriculture, and accommodation and food services, are not subject to the parcel tax on commercial office space because they tend to provide local benefits.

These revenues are allocated as follows:

- Minimum 35% must be used for affordable housing stock
- Maximum 15% can be used for staff and overhead of administering program

**East Palo Alto Measure O:** On November 8, 2016, the voters of the City of East Palo Alto voted in favor of Measure O. Under Measure O, landlords with five or more residential rental units are subject to a 1.5% tax on gross rental receipts. Measure O will generate funding for the City to help fund programs for affordable housing and alleviate displacement and homelessness.

### **San Francisco:**

The City and County of San Francisco imposes both a gross receipts tax and a business license tax for businesses operating within their boundaries. The following sections provide background and additional information regarding each of these two business taxes.

**San Francisco Business License Tax:** 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**

<b>Tax Percentage</b>	<b>Gross Receipts Range</b>	<b>Rate</b>
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**

<b>Tax Percentage</b>	<b>Gross Receipts Range</b>	<b>Rate</b>
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 ( $\$3,000,000 / \$1,000 \times \$3.00$ ) totaling \$9,000.

**San Francisco Gross Receipts Tax** (For Homelessness) – imposes an additional gross receipts tax of 0.175% to 0.69% on combined taxable gross receipts over \$50 million. Businesses or combined groups that pay the administrative office tax will pay an additional tax of 1.5% on their payroll expense in San Francisco.

- Exemptions
  - Certain nonprofit organizations and businesses exempt from local taxation, such as banks and insurance companies;
  - Receipts that are exempt from the gross receipts tax; and
  - Receipts subject to the City's Early Care and Education Commercial Rents Tax.
- The tax rates imposed are as follows:

<b>Business Activity</b>	<b>Tax Rate</b>
Retail Trade; Wholesale Trade; and Certain Services	0.18%
Manufacturing; Transportation and Warehousing; Information; Bio-Technology; Clean Technology; and Food Services	0.50%
Accommodations; Utilities; and Arts Entertainment and Recreation	0.43%
Private Education and Health Services; Administrative and Support Services; and Miscellaneous Business Activities	0.69%
Construction	0.48%
Financial Services; Insurance; and Professional, Scientific and Technical Services	0.60%
Real Estate and Rental and Leasing Services	0.33%

## Appendix A

The following table shows the number of firms, by various employee size categories, in each industry type that were utilized in the projections.

**Number of Firms per Employee Size Category by Industry Type**

Industry	1 0-4	2 5-9	3 10-19	4 20-49	5 50-99	6 100-249	7 250-499	8 500-999	9 1000+	Total By Industry
1100 Total Agriculture, Forestry, Fishing and Hunting	7	1								8
2300 Total Construction	53	16	9	6	2	1				87
3100 Total Manufacturing	3	1	3	2						9
3200 Total Manufacturing	14	1	1							16
3300 Total Manufacturing	42	10	6	6	3	4	2	2	1	76
4200 Total Wholesale Trade	47	12	7	8	3	1	1			79
4800 Total Transportation and Warehousing	8	0	1	0	1	1				11
5100 Total Information	138	29	26	30	11	5	3	2	3	247
5200 Total Finance and Insurance	135	36	35	22	6	1	2			237
5300 Total Real Estate and Rental and Leasing	130	18	14	12	4	1				179
5400 Total Professional, Scientific, and Technical Services	635	112	83	93	35	23	10	2	3	996
5500 Total Management of Companies and Enterprises	4	3	6	2	1	1	0	0	2	19
5600 Total Administrative and Support and Waste Management	68	21	14	10	10	3				126
7100 Total Arts, Entertainment, and Recreation	25	7	7	7	2	2				50
81 Total Other Services (except Public Administration)	468	33	22	17	6	3				549
<b>TOTAL</b>	<b>1,777</b>	<b>300</b>	<b>234</b>	<b>215</b>	<b>84</b>	<b>46</b>	<b>18</b>	<b>6</b>	<b>9</b>	<b>2,689</b>

The following table shows the number of firms associated with Stanford for each of the industry classifications. Detail was not available regarding the number of firms by business size (number of employees) so Stanford data could not be excluded in a more refined manner.

**Number of Firms  
City of Palo Alto versus Stanford-Related**

Industry	Total Business by Industry	Estimated Stanford Related Businesses	City of Palo Alto Businesses (excluding Stanford)
1100 Total Agriculture, Forestry, Fishing and Hunting	8	0	8
2300 Total Construction	87	1	86
3100 Total Manufacturing	9	1	8
3200 Total Manufacturing	16	0	16
3300 Total Manufacturing	76	0	76
4200 Total Wholesale Trade	79	2	77
4800 Total Transportation and Warehousing	11	0	11
5100 Total Information	247	8	239
5200 Total Finance and Insurance	237	4	233
5300 Total Real Estate and Rental and Leasing	179	2	177
5400 Total Professional, Scientific, and Technical Services	996	18	978
5500 Total Management of Companies and Enterprises	19	0	19
5600 Total Administrative and Support and Waste Management	126	4	122
7100 Total Arts, Entertainment, and Recreation	50	1	49
81 Total Other Services (except Public Administration)	549	49	500
<b>TOTAL</b>	<b>2,689</b>	<b>90</b>	<b>2,599</b>

Overall, Stanford-related businesses represent approximately 3.3% of the total number of businesses within the community.

## Appendix B

### Estimated Rates Per Employee Count Size Category Necessary to Achieve Business License Tax Revenue Targets Ranging from of 1% to 10% of General Fund

The following tables estimate the rates that would need to be imposed to generate each 1% of General Fund revenue from a business license tax. These rates would need to be modified if the Council were to include additional exemptions (in which case the rates would increase) or not provide any local exemptions (in which case the rates would decrease).

#### Estimated Rates to Achieve 1% of City of Palo Alto's General Fund

Number of Employees	Business Registration and License Tax
1	\$59
2 to 25	\$59 + \$4/employee over 1
26 to 50	\$155 + \$8/per employee over 25
51 to 500	\$355 + \$59/employee for each employee over 50 employees
501 to 1,000	\$26,905 + \$78/employee for each employee over 500 employees
1,001 to 5,000	\$65,905 + \$98/employee for each employee over 1,000 employees
5,001+	\$457,905 + \$117/employee for each employee over 5,000 employees

#### Estimated Rates to Achieve 2% of City of Palo Alto's General Fund

Number of Employees	Business Registration and License Tax
1	\$117
2 to 25	\$117 + \$8/employee over 1
26 to 50	\$309 + \$18/per employee over 25
51 to 500	\$759 + \$117/employee for each employee over 50 employees
501 to 1,000	\$53,409 + \$156/employee for each employee over 500 employees
1,001 to 5,000	\$131,409 + \$195/employee for each employee over 1,000 employees
5,001+	\$911,409 + \$234/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 3% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$175
2 to 25	\$175 + \$12/employee over 1
26 to 50	\$463 + \$23/per employee over 25
51 to 500	\$1,038 + \$175/employee for each employee over 50 employees
501 to 1,000	\$79,788 + \$233/employee for each employee over 500 employees
1,001 to 5,000	\$196,288 + \$291/employee for each employee over 1,000 employees
5,001+	\$1,360,288 + \$350/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 4% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$233
2 to 25	\$233 + \$16/employee over 1
26 to 50	\$617 + \$31/per employee over 25
51 to 500	\$1,392 + \$233/employee for each employee over 50 employees
501 to 1,000	\$106,242 + \$311/employee for each employee over 500 employees
1,001 to 5,000	\$261,742 + \$389/employee for each employee over 1,000 employees
5,001+	\$1,817,742 + \$467/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 5% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$292
2 to 25	\$292 + \$19/employee over 1
26 to 50	\$748 + \$39/per employee over 25
51 to 500	\$1,723 + \$292/employee for each employee over 50 employees
501 to 1,000	\$133,123 + \$389/employee for each employee over 500 employees
1,001 to 5,000	\$327,623 + \$486/employee for each employee over 1,000 employees
5,001+	\$2,271,623+ \$584/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 6% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$350
2 to 25	\$350 + \$23/employee over 1
26 to 50	\$902+ \$47per employee over 25
51 to 500	\$2,077 + \$350/employee for each employee over 50 employees
501 to 1,000	\$159,577 + \$467/employee for each employee over 500 employees
1,001 to 5,000	\$393,077 + \$584/employee for each employee over 1,000 employees
5,001+	\$2,729,077+ \$701/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 7% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$409
2 to 25	\$409 + \$27/employee over 1
26 to 50	\$1,057 + \$55/per employee over 25
51 to 500	\$2,432 + \$409/employee for each employee over 50 employees
501 to 1,000	\$186,482+ \$545/employee for each employee over 500 employees
1,001 to 5,000	\$458,982+ \$681/employee for each employee over 1,000 employees
5,001+	\$3,182,982 + \$818/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 8% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$467
2 to 25	\$467 + \$31/employee over 1
26 to 50	\$1,211 + \$62/per employee over 25
51 to 500	\$2,761 + \$467/employee for each employee over 50 employees
501 to 1,000	\$212,911 + \$622/employee for each employee over 500 employees
1,001 to 5,000	\$523,911 + \$778/employee for each employee over 1,000 employees
5,001+	\$3,635,911 + \$933/employee for each employee over 5,000 employees



**Estimated Rates to Achieve 9% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$525
2 to 25	\$525 + \$35/employee over 1
26 to 50	\$1,365 + \$70/per employee over 25
51 to 500	\$3,115 + \$525/employee for each employee over 50 employees
501 to 1,000	\$239,365 + \$700/employee for each employee over 500 employees
1,001 to 5,000	\$589,365 + \$875/employee for each employee over 1,000 employees
5,001+	\$4,089,365 + \$1,050/employee for each employee over 5,000 employees

**Estimated Rates to Achieve 10% of City of Palo Alto's General Fund**

<b>Number of Employees</b>	<b>Business Registration and License Tax</b>
1	\$584
2 to 25	\$584+ \$39/employee over 1
26 to 50	\$1,520 + \$78/per employee over 25
51 to 500	\$3,470 + \$584/employee for each employee over 50 employees
501 to 1,000	\$266,270 + \$778/employee for each employee over 500 employees
1,001 to 5,000	\$655,270 + \$973employee for each employee over 1,000 employees
5,001+	\$4,547,270 + \$1,167/employee for each employee over 5,000 employees

Detailed Timeline of Discussions with Finance Committee and City Council regarding the  
November 2020 Ballot Measure

As discussed in the body of CMR 10655, the City of Palo Alto has been discussing its options for a revenue generating ballot measure in 2020 throughout 2019. A brief timeline of the CMRs and discussions with the Finance Committee and the City Council since April of 2019, when staff was formally directed to begin working on this project by the City Council, is included below for additional context. The date, the forum of the meeting (Finance Committee or City Council), the summary title, and the CMR number are included for ease of reference.

*Timeline:*

- 4/22/2019 City Council, “2019 Fiscal Sustainability Workplan”, [CMR 10267](#)
- 4/22/2019 City Council, “Approve Workplan for a Potential Revenue Generated Ballot Measure”, [CMR 10261](#)
- 6/18/2019 Finance Committee, “Review, Comment, and Accept Preliminary Revenue Estimates for Consideration of a Ballot Measure”, [CMR 10392](#)
- 8/20/2019 Finance Committee, “Evaluation and Discussion of Potential Revenue Generating Ballot Measures”, [CMR 10445](#)
- 9/16/2019 City Council, “Evaluation and Discussion of Potential Revenue Generating Ballot Measures and Budget Amendment”, [CMR 10615](#)
- 10/1/2019 Finance Committee, “Revised Workplan for Consideration of a Ballot Measure”, [CMR 10712](#)
- 10/15/2019 Finance Committee, “Stakeholder Outreach, Initial Polling, and Discussion of a Potential Ballot Measure”, [CMR 10743](#)
- 11/4/2019 City Council, “Potential Ballot Measure Polling/Outreach, Contract, Solicitation Exemption and Budget Amendment”, [CMR 10792](#)
- 12/2/2019 City Council, “Structure and Scenarios of Initial Round of Polling for a Potential Local Tax Measure”, [CMR 10891](#)