

CITY OF SAN LEANDRO

MEMORANDUM

DATE: March 15, 2016

TO: Finance Committee

FROM: Katie Bowman, Business Development Specialist

SUBJECT: Business License Update Discussion

SUMMARY AND RECOMMENDATION

Staff requests that the Finance Committee provide feedback on proposed updates to business license fees related to small businesses, as well as warehouse and wholesale/distribution centers.

DISCUSSION

As a part of the current business license update process, Business Development staff are evaluating potential changes to the business license fee structure for small businesses, warehouses, and wholesale/distribution businesses. The goal of these updates is to lessen the burden of business license fees for the smallest businesses, as well as make the fees for large warehouses and distribution centers better reflect their impact and the City's policy goals.

Existing Business License Fees

Base fee of \$125 per business, plus:

- Retail, Manufacturing, Wholesale/Distributors, Utility	\$37.52 per employee
- Service (incl Warehouse), Contractor, Rec/Entertainment	\$75.14 per employee
- Professional	\$93.96 per employee

Proposed changes are:

1. Waive the per-employee fee for businesses with 3 or less employees (they will continue to pay the base fee of \$125)
 - o Results in an estimated \$300,000 reduction in business license fee revenue
2. Base the fees for warehouses and wholesale/distribution centers on building square footage rather than number of employees, charging \$100 per thousand square feet
 - o Results in an estimated \$300,000 - \$500,000 increase in business license fee revenue

Small Businesses:

The majority of businesses licensed by the City are small, with around 2,500 having 3 or less employees (excluding property rental businesses and businesses located outside of San Leandro). In speaking with these small businesses, staff often hears that business license fees are onerous, particularly as compared with some surrounding communities that provide accommodations for small businesses. In general, these businesses currently pay \$37 - \$93 per

employee, as well as a base fee of \$125. At these rates, businesses with three employees will pay \$235 - \$408 per year for their Business License Fee. As proposed, these smallest businesses would only pay the base rate of \$125. The fiscal impact of this change is estimated to be a reduction in revenue of approximately \$300,000.

Warehouses & Distribution Centers:

A large amount of commercial property in the City is utilized for warehousing and wholesale/distribution (approximately 16.5 million square feet). Fees for the many warehouses and wholesale/distribution centers in the City are comparatively low and do not appropriately account for the impact of these businesses. While they are charged by employee, they have low employment per square foot. On average, warehouses have 1 employee per 5,000 square feet (as compared to 1 employee per 1,000 square feet for manufacturing). The result is notably low business license fees averaging \$500 - \$1,500. Charging by square foot for warehouse and wholesale/distribution uses will better align the fee structure with the City's goal of encouraging employment-intensive uses rather than the storage of goods. Additionally, the existing fees for warehouse/distribution uses do not reflect the fact that they create a high volume of truck traffic, creating an adverse impact on congestion the condition of the City's road network.

Small Business Discount

Waive employee fee for businesses with 3 or less employees

Revenue from Businesses with 3 or less employees:	\$560,000
- Base Fee	<u>\$200,000</u>
Per Employee Fee (Decrease in Revenue)	\$300,000

Applies to businesses that charge by employee in the following categories: Consulting, Contractor, Manufacturing, Professional, Recreation/Entertainment, Retail, and Service

Warehouse, Distribution, & Wholesale Rate Change

Restructure rates for businesses with large square footage and small employment, charging \$100/1,000sf rather than by employee

	Warehouse	Wholesale/Distributor	Total
Current Fee - by Employee	\$50,000	\$150,000	\$200,000
Fee by Area (\$100/1000sf)	\$350,000	\$350,000	\$700,000
Increase in Revenue	\$300,000	\$200,000	\$500,000