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Staff Report for Resolution Extending the Business License Tax Holiday Through December 31, 2014

SUMMARY AND RECOMMENDATIONS

This report provides an update on the results to date of the Business License Tax Holiday, which was initiated on September 1, 2013. Staff recommends that the City Council adopt the attached resolution extending the Business License Tax Holiday through December 31, 2014. This change will mean that all qualifying new businesses in San Leandro will not pay any business license tax until January 1, 2015.

BACKGROUND

Beginning September 1, 2013, the City of San Leandro instituted a Business License Tax Holiday, waiving business license fees for new businesses through August 2014. By resolution, the Business License Tax Holiday expires August 31, 2014.

Businesses that are new to San Leandro, including start-ups and businesses re-locating from other areas, are presently exempt from paying the tax for the 2014 calendar year. The City has also waived a zoning conformance review fee of \$107 for new businesses. The Business License Tax Holiday excludes out-of-City contractors, businesses not physically located in San Leandro, residential and commercial property owners who are renting their property, amusement devices, and waste disposal sites.

The intent of the program was to capitalize on the improving economy as well as major economic drivers such as the Kaiser Permanente San Leandro Medical Center and Lit San Leandro to ensure that the City did everything possible to attract new businesses.

Absent action by the City Council, the Business License Tax Holiday is set to expire on August 31, 2014.

Initial Outreach and Media Coverage

A primary benefit of the Business License Tax Holiday is the message it sends regarding San Leandro's willingness to support new businesses. Combined with a robust program of business incentives, the One Stop Permit Center, and a business-friendly attitude by staff, the Tax Holiday helps to proclaim that San Leandro is open and ready for business. Toward that end, publicity for the tax holiday was important as the City sought to spread the word about this program. Outreach was very successful and the coverage helped to draw attention to the numerous positive developments occurring in San Leandro.

Press coverage of the Business License Tax Holiday included the following media outlets:

Date	Source
July 11, 2013	San Leandro Times
September 3, 2013	San Leandro Patch
September 3, 2013	Bay Area News Group (Hayward Daily Review, Oakland Tribune, San Jose Mercury News)
September 4, 2013	California Political News and Views
October 18, 2013	San Francisco Business Times
February 23, 2014	KTVU News (television)
February 24, 2014	The Daily Caller

New Businesses and Financial Impact

As of May 21, 2014, 207 new San Leandro businesses qualified for the Business License Tax Holiday. Those businesses employ 1,475 people. Total revenue foregone is \$109,982, including both business license and zoning conformance fees that were waived. By August 31, 2014, staff estimates that the total cost of the program will be approximately \$152,000.

Staff compared this data against the same period a year earlier and found that the pace of new business openings has been slightly slower in the current year, since the establishment of the program. For the same period in the prior year, an estimated 350 new businesses opened in San Leandro, employing about 1,250 people.

For additional comparison, in 2012 approximately 340 new businesses opened in San Leandro, employing approximately 850 people. In 2011, approximately 420 new businesses opened in San Leandro, employing approximately 1,150 people.

The primary reason for the current year having fewer new businesses but more employees is that the Permanente Medical Group obtained its first business license in November 2013. With over 700 employees, this operation is highly atypical for a new business. The average number of employees for a new business in San Leandro is typically around four. The following table shows new business license data for the past four years, excluding Kaiser which is considered an anomaly and not indicative of an overall trend.

Time Period	New Businesses	New Employees
9/2013 - 5/2014 (9 months)	206	700
9/2012 - 5/2013 (9 months)	350	1,250
1/2012 - 12/2012 (12 months)	340	850
1/2011 - 12/2011 (12 months)	420	1,150

Conclusions

For most businesses the annual San Leandro business license tax is a base fee of \$121.60 plus a per-employee charge ranging from \$36.50-\$91.40, depending on the business type. These amounts compare favorably to most other cities in the region. At these rates, the tax does not represent a significant operating expense for most businesses and it is not likely, on its own, to influence business location decisions. Moreover, it is difficult to pinpoint any one factor as the sole reason a business would open in a given location.

The greatest benefit from the Business License Tax Holiday was not that it induced new businesses to locate in San Leandro, but rather that it reinforced San Leandro's reputation as a great place to do business. Combined with a flurry of other positive developments, the positive press coverage garnered by the introduction of the tax holiday was beneficial.

Recommended Extension

The Business License Tax Holiday began on September 1, 2013 and, by resolution, runs for a period of one year. Absent action by the City Council, new businesses that apply for a business license after September 1 would need to pay for the remainder of 2014, including the zoning compliance fee. By extending the program through the end of the calendar year, the City will ensure that new businesses will not pay any fees until January 1, 2015. This may provide a financial incentive for additional new businesses and eliminate any confusion that may have resulted from the program ending in the middle of the year.

As noted above, the Business License Tax Holiday is forecast to cost the City approximately \$152,000 through August 31, 2014. Staff estimates that the extension will result in an additional \$38,000 in foregone revenue for a grand total over 16 months of \$190,000 lost revenues.

Previous Actions

On July 15, 2013, the City Council authorized the Business License Holiday to run from September 1, 2013 through August 31, 2014.

Fiscal Impacts

Extending the Business License Tax Holiday through December 31, 2014 is expected to result in additional lost revenue of \$38,000 to the City's General Fund, totaling \$190,000 over 16 months (September 1, 2013 through December 31, 2014).

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