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Staff Report for Council Discussion / Direction on Business License Tax Holiday for New Businesses

SUMMARY

At the June 17, 2013 City Council meeting, Mayor Cassidy proposed and the City Council unanimously supported, directing staff to provide a report on the creation of a business license tax holiday for new businesses that open in San Leandro. The proposed holiday would be for a specific amount of time, such as six months or one year. The intent of this initiative is to grow the city's revenues by aggressively attracting new investment, employment and services.

BACKGROUND

The City Council has stated goals of fiscal sustainability and program development that advance our economic position and reflect innovation. These goals have taken front stage in recent years due to economic challenges globally and the demise of redevelopment locally. Given that cities rely heavily on sales tax revenue to provide vital services and build projects, there is a constant need to work toward revenue diversification and enhancement. To address the challenge of limited revenue and growing costs of providing services, San Leandro has taken a number of aggressive steps to spur economic activity including:

- Recruitment of Kaiser Hospital project
- Private-Public Partnership to begin and expand Lit San Leandro, and the creation of a new role of Chief Innovation Officer to support this key initiative
- Downtown San Leandro investment, such as the parking garage, pedestrian and lighting enhancements and seed funding for the formation of a community benefit district
- Encouraging housing and office development around downtown BART Station
- Execution of a public planning process for the Shoreline development and management of the environmental review process
- Funding of the Next Generation Workplace District Study to support the creation of vibrant,

innovative and attractive 21st century workplaces in the City's industrial area

- Focusing the Community Development Department strongly toward economic development
- Aggressive grant solicitation and procurement
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As with most concepts, the above projects are in varied phases of completion and have yet to see their full economic impact. As the City faces sustainability challenges, the need to accelerate our revenue efforts is apparent.

DISCUSSION

There is a great sense of momentum in the San Francisco Bay Area and San Leandro is beginning to see heightened interest in our community from investors. Investment cycles are short windows and specific to regions, and the Bay Area is fortunate because of its world class universities, workforce, labs, corporate presence, natural resources and public infrastructure. These factors, along with the innovation culture that drives venture capital and investment, is creating new opportunities for cities.

San Leandro has a great location, infrastructure and affordability that positions it to do well in this cycle of investment. Unfortunately, "well" does not do justice to the opportunities and need that exist in this window. We exist in a very desirable area that creates real competition for jobs, investment and sales tax. Many communities in the Bay Area have assets that they are marketing, creating a need for innovative and aggressive steps that will drive quality investment to San Leandro.

BENEFITS OF THE PROPOSAL

The Business License Tax Holiday for truly new business is a concept that considers:

- The Bay Area is seeing an upswing in business expansion and growth
- A competitive environment for investment
- The need for new tools in San Leandro to replace the loss of \$5,000,000 in redevelopment funds
- The vacancy rates in key areas - commercial, retail and industrial
- Providing an opportunity to increase our business base and grow the tax base
- Benefits for the entire community, including existing businesses, which will come from an increase in new investment and the presence of new businesses.

San Leandro has adopted along with all other Alameda and Contra Costa cities an "Open for Business" Pledge. This proposed program would take that pledge seriously and to another level if approved by Council.

CHALLENGES OF THE PROPOSAL

Although the proposed Business License Tax Holiday will reduce financial costs for new businesses and send a clear message that San Leandro is business friendly, it is not guaranteed to spur new business activity. For most businesses the annual San Leandro business license tax is a flat fee of \$117.00 plus a per-employee charge ranging from \$35-\$87, 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. Staff is not aware of any businesses that have cited the Business License Tax as a factor that caused them to locate outside of San

Leandro.

The Business License Tax Holiday might also be seen as unfair by businesses that were not offered a similar benefit when they began operations in San Leandro, particularly those that opened just prior to the initiation of the program.

FINANCIAL IMPACT

The loss of General Fund revenue from a Business License Tax Holiday would depend on the number of new businesses opening or moving to San Leandro during the program's timeframe. Based on data from 2012-13, it is estimated that a 12-month holiday could result in a loss of between \$60,000 and \$80,000 in Business License Tax revenue. In 2012-13 approximately 340 new businesses opened in San Leandro, employing approximately 850 people.

Over time, the program could also increase General Fund revenues in other areas by leading to increases in property and sales taxes. The amount of these increases is very difficult to estimate and will be a factor of the number of new businesses that would not have located in San Leandro absent the Business License Tax Holiday.

MEASUREMENT OF SUCCESS

If enacted, staff would track the number of businesses that benefitted from the Business License Tax Holiday. This data would be compared against other recent years to determine whether or not the Program spurred new business activity. Although it is difficult to control for larger changes in the regional economy, it would be possible to generate rough estimates of the program impacts. Measurable data would include number of new businesses and number of employees at those businesses. It may also be possible to generate rough estimates of sales tax generated by benefitting businesses.

PROGRAM PARAMETERS

If the City Council elects to approve a Business License Tax Holiday, staff recommends the following program parameters:

Program Dates: September 1, 2013 - August 31, 2014.

Eligible Businesses: All businesses that are new to San Leandro and physically located inside the City, excluding residential and commercial rental property owners and waste disposal sites. Businesses that operated previously in San Leandro that need new licenses due to changes in name, ownership, or business type would not be eligible.

No Amnesty: All fines and back payments related to failure to pay the Business License Tax prior to September 1, 2013 would still apply.

Zoning Approval Fee: All new businesses would still be required to pay a one-time \$104 zoning fee to ensure that they are in compliance with applicable zoning regulations.

State Admin Fee: In 2012, SB 1186 added a State of California fee of \$1 on any local business license, or renewal thereof. For the sake of administrative efficiency, the City would pay this fee on behalf of any business subject to the Business License Tax Holiday.

Business Improvement Districts: The LINKS Business Improvement District fee, collected as part of the Business License process for all applicable businesses would still be due in all cases, due to legal restrictions.

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