

**CITY OF ALBANY
CITY COUNCIL AGENDA
STAFF REPORT**

Agenda Date: April 7, 2008

Reviewed By: _____

SUBJECT: Business License Revenue Analysis

REPORT BY: Charlie Adams, Finance & Administrative Services Director
Kim Denton, Treasurer

STAFF RECOMMENDATION

Information only.

BACKGROUND

Members of the City Council and interested citizens have requested that staff review and report on the method used to assess business license taxes, with specific interest to the use of gross revenues of the licensees, as compared to the number of employees, as the basis for assessing the tax for commercial entities.

The authority for implementation and regulation of the business license tax is contained in Sections 5-1.1 thru 5-2.15 of the City Code. The City Code may be viewed on line at http://www.codedsystems.com/albany_ca.htm. The City Treasurer is designated as the official for issuance of business licenses and collection of the business license tax. The Treasure is assisted in this responsibility by staff from the Finance and Administrative Services Department.

DISCUSSION

Exhibit A – Business License Tax Rates

The tax rates for business licenses are set annually, in accordance with the City Code, and are published in the City's Master Fee Schedule.

Exhibit B – Business License Profile – 2007

This exhibit lists the business licenses by type and the revenue generated by each business type. There are two major types of licenses, commercial business and residential rental, significant factors related to this exhibit include:

- The commercial business license tax is generally a base amount (at January 1, 2008 - \$230) plus an additional \$47, for each equivalent full time employee in excess of one employee/owner.
- Contractors without permanent locations in Albany may purchase quarterly or semi-annual licenses at prorated amounts. Contractor taxes are assessed based upon the number of equivalent full time employees working in the City during the term of the license.

- Commercial licenses account for 65% of licenses issued and 67% of taxes collected. Local and non-local contractors account for 43% of commercial licenses. Local service businesses account for 37% of commercial licenses and retail businesses account for 12% of commercial licenses.
- Non-local contractor license taxes are most frequently collected at the time a building permit is issued; although the contractor business license requirement is not limited to businesses performing work that requires a permit.
- Residential rental licenses are required for all rental property, including single-family homes. The tax is assessed based on the number of living units in the building.
- Condominium owners, who rent their condos, are assessed a tax in the same manner as apartment owners. Condominium associations are assessed fire inspection fees but are not assessed business license taxes.
- Residential rental licenses account for 35% of licenses issued and 33% of taxes collected.

Exhibit C – Highest Paying Business Licensees

Significant factors of the highest paying licensees include:

- Based on reported sales tax, 10 of the 20 highest paying commercial businesses are also among the 20 highest grossing sales revenue producers in the City.
- The 20 highest paying commercial business licensees are all retail entities; they constitute 11% of the retail licensees, 2% of the commercial licensees, and pay 12% of the commercial license tax collected.
- The number of living units in the 20 highest paying residential buildings range from 12 to 59 and average 22.
- The 20 highest paying residential buildings constitute 2.5% of rental licenses issued and pay 20% of the rental license tax collected.

Exhibit D – Business License Revenue Comparison

This exhibit compares the business license revenue collected by Albany with 14 neighboring cities and with 15 cities of similar population. Significant factors noted in this comparison include:

- The per capita revenue for 11 neighboring cities (excluding Emeryville, and excluding Moraga and Orinda who have no business license tax) range from \$5.89 to \$105.00, with a mean average of \$43.75 and a median of \$25.38. This compares to the Albany per capita revenue of \$26.92.
- Of the 15 cities of similar population, 14 have a business license tax, and the per capita revenue for these 14 cities range from \$1.63 to \$33.53, with a mean average of \$10.96 and a median of \$6.87.
- Business license revenue as a percentage of General Fund revenue for 11 neighboring cities (excluding Emeryville, and Moraga and Orinda who have no business license tax) range from 1.1% to 29.7%, with a mean average of 7.2% and a median of 4.2%. This compares to the Albany percentage of 4.5%.
- Of the 15 cities of similar population, 14 have a business license tax, and the business license revenue as a percentage of General Fund revenue for these 14

cities range from 0.8% to 3.0%, with a mean average of 2.0% and a median of 1.5%.

Exhibits E & F – Business License Tax Base

These two exhibits present two surveys of bases used by cities to assess business license taxes. Significant facts related to these surveys include:

- Exhibit E contains 46 cities and Exhibit F contains 31 cities. Five cities appear on both surveys.
- There were no cities that had a simple formula that applied to all types of businesses, and this made classification and summary difficult for the conductors of the surveys. However, the cities listed as gross receipts and those listed as employee based all used these bases for a large portion of the licensees
- Exhibit E list 33% of cities applying a flat tax, and Exhibit F lists 26% as applying a flat tax. However, the flat tax in most cases applied only to a small sub-set of the licensees; this is consistent with the Albany tax that is a flat tax for several specialize businesses such as bail bond brokers, pawnbrokers and advertising vehicles.
- In both surveys the use of gross receipts and number employees as the tax basis was evenly split between the respondents. For Exhibit E, 43% reported number of employees, and 41% reported gross receipts as the tax base. For Exhibit F, 65% reported number of employees as the base, and 44% reported gross receipts as the tax base.
- Exhibit F includes information on residential rental, but the variations in practices were so great that meaningful tabulation was not possible. Only 3 cities appear to apply a flat tax without additional tax per units above a base of 1 to 3 units.
- This statistic was not included in the exhibits, but 16 of the 31 cities reported on Exhibit F do not require a business license for rental of single family residences.

Fire Inspection Fees

In evaluating business license taxes, it is necessary to consider fire inspection fees that are billed in conjunction with the business license tax because while these fees are separately stated on the business license renewal invoices, it is probably difficult for the licensees to view them as distinct charges for services.

As shown on Exhibit B, the fire inspection fees are equal to 24% of business license taxes and comprise 19% of total revenue collected.

ANALYSIS

Analysis of the data presented in this report does not produce a mandate for changing the basis of assessment so as to provide a more equitable tax, nor does it indicate that the revenue generated by the tax is disproportionate with that generated by similar cities.

FINANCIAL IMPACT

There is no change in operations proposed at this time; thus, there is no fiscal impact associated with this staff report.

ATTACHMENTS:

- Exhibit A – Business License Tax Rates
- Exhibit B – Business License Analysis – 2007
- Exhibit C – Highest Paying Business Licensees
- Exhibit D – Business License Revenue Comparison
- Exhibit E – Business License Tax Bases (CSMFO Survey)
- Exhibit F – Business License Tax Bases