



MEMORANDUM

To: Finance Committee; Business Advisory Committee

From: Yulia Carter, Assistant City Manager/Administrative Services Director

Date: May 15, 2019

Subject: Business License Tax – Update on New Ordinance and Outreach Program

Background

A Business License Tax (BLT) is charged to anyone doing business in a City. It is a common tax that is used to fund City services throughout California with over 90% of cities in California (450 of the 482) levying a BLT. The BLT recognizes the link between City services and infrastructure and the use of these by local businesses.

The City of Sausalito established its Business License tax ordinance in 1968. Since that time, it was updated several times by action of the City Council. Over the years the Sausalito BLT Ordinance had become quite complex and needed simplification, streamlining and an update. The City's BLT services firm, hDL Companies, says that there are approximately 1,800 licensed firms in Sausalito, including vendors at the Sausalito Art & Wine Festival.

In June 2018, the City Council authorized the City Staff to proceed with three revenue measures that would address the City's projected budget shortfall in the future and maintain the current level of City services. These measures were an increase in Parking Rates (adopted by the City Council in July 2018) and two measures that required a majority approval by the voters – Measure L (an increase in the Transient Occupancy Tax also known as the "Hotel Tax") and Measure M (update and increase Business License Tax rates).

Measure M - Business License Tax Equity Measure

A study of the City's BLT Ordinance was prepared by hDL Companies. It recommended that the City's ordinance be streamlined and updated. This report and its recommendations were referred to the City Council Finance Committee. In July, the Finance Committee recommended placing Measure M, the Business License Tax Equity Measure on the November 2018 ballot.

The key provisions of the committee's recommendation, which were subsequently adopted by the City Council and placed on the ballot included:

1. Simplify and streamline the BLT Ordinance including a reduction in the number of business categories from 22 to 4
2. Changes to the BLT tax structure that included a 13% reduction in BLT Taxes charged to Retail and General Businesses and updates to other business rate categories
3. Include Subcontractors and Commercial Property Owners in the BLT Ordinance.
4. Delaying implementation of the new BLT Ordinance until July 1, 2019 (for unlicensed businesses) and January 1, 2020 (for existing licensed businesses).

Educational Materials and Outreach in 2018

The City provided educational materials and outreach in the summer and fall of 2018. This included:

- Providing information on Measure M on the City web site
- Articles in the Currents eNewsletter
- The Business Manager met with the Chamber of Commerce and answered questions about the proposed measure from 5 businesses at a meeting on Measure M
- The City offered to provide an estimate of BLT taxes for registered businesses by email and provided 7 estimates that were requested during that period.

Proposed Outreach Program for New BLT Ordinance

Measure M was approved by the voters in November 2018 with a 65% Yes vote. As noted above, the measure will be implemented starting this July 2019 for new businesses and then in January 2020 for existing businesses.

New Businesses (effective on July 1, 2019)

The Sausalito Website will be updated to provide information on the new ordinance. It will include the new rates and categories, forms with the new rates and a Frequently Asked Questions (FAQs) document.

Existing Businesses (effective on January 1, 2020)

In November 2018, renewal notices will be mailed out to existing businesses. This mailing will include information on the Measure M election in November 2018, the new rate categories and how the new BLT ordinance will affect how the BLT return is filed.

Subcontractors and Commercial Property Owners (effective on January 1, 2020)

These businesses would receive a special package in September or October 2019 indicating that the BLT Ordinance now applies to them. This will give them additional time to complete the BLT forms prior to the tax payment becoming due to January 1, 2020.

The City has the option of beginning the licensing of the formerly exempt categories of Subcontractors and Commercial Property Owners on July 1, 2019 or January 1, 2020. Staff is recommending that these businesses be brought into the program in January 2020. The City will pay a one-time flat fee to hDL Companies for this special mailing to formerly exempt firms.

Extend Payment Period Without Penalty

The City's BLT services provider, hDL Companies, recommends that the City extend the payment without penalties period for the 2020 renewals for one month – to February 29, 2020. This will provide more time for businesses to call with questions and to file under the new ordinance. The City is planning to follow this recommendation.

Optional: Pre-Mailing for Existing Businesses

Some cities also provide a pre-mailing that includes educational materials and, in some cases, also provides support in September or October 2019 before a new BLT ordinance and rates take effect. With this approach, there would then be a second mailing in early December 2019. The cost to the City of this optional pre-mailing would be \$4,000 to \$10,000 depending on whether it was an educational mailing only or if it was enhanced to provide support and the mailing.

hDL Companies tell us that most cities are opting to skip the optional pre-mailing service for existing businesses. Apparently, some businesses do not like to receive back to back mailings from the City that a) provide outreach and education on a new BLT ordinance and rates and then b) it is followed shortly by the annual renewal forms and payment process.

Recommendations from the Business Advisory Committee

The City Staff is interested in the BAC's comments and recommendations on the BLT rollout program. We also would like to hear your thoughts on whether the optional pre-mailing is something that would be viewed as helpful or not by the Sausalito business community.

**Business License Tax Estimates
(Current and Measure M)**

No.	Business Type	Gross Receipts	Current BLT*	Measure M BLT*	Difference
1	Home Based, Tax Preparation	\$ 12,000	\$ 64	\$ 129	\$ 65
2	Home Based Business	(not reported)	\$ 64	\$ 129	\$ 65
3	Manufacturing	\$ 7,193,748	\$ 1,648	\$ 7,197	\$ 5,549
4	Professional/Legal	\$ 400,000	\$ 493	\$ 997	\$ 504
5	Apartment Rental	\$ 30,000	\$ 59	\$ 129	\$ 70
6	Medical/Dentistry	\$ 773,331	\$ 889	\$ 2,323	\$ 1,434

* Includes \$4 State Fee