



City of San Leandro

Meeting Date: July 15, 2013

Staff Report

File Number: 13-378

Agenda Section: ACTION ITEMS

Agenda Number: 10.B.

TO: City Council

FROM: Chris Zapata
City Manager

BY: Chris Zapata
City Manager

FINANCE REVIEW: Not Applicable

TITLE: Staff Report for Resolution Approving a 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 businesses to spur investment, increase employment and provide a variety and diversity of services.

At the July 1, 2013 City Council meeting, staff presented proposed program parameters and an estimate of the fiscal impact of the proposal. The City Council expressed support for moving forward with a Business License Tax Holiday for New Businesses.

BACKGROUND

The City Council has stated goals of fiscal sustainability and program development to advance the City's 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 challenges of limited revenue and increasing costs to provide 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 the 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

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 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 the community from investors. Investment cycles are short windows and specific to regions, and the Bay Area is fortunate because of its world class universities, diverse workforce, world renowned laboratories, numerous multinational corporations, 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 is in a great location, it has reliable 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. The City exists 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 businesses 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 the City's 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 of the 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 the City 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 2011 and 2012, it is estimated that a 12-month holiday could result in a loss of between \$60,000 and \$100,000 in Business License Tax revenue. In 2011, approximately 420 new businesses opened in San Leandro, employing approximately 1150 people. In 2012 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's 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

Staff recommends the following program parameters for the Business License Tax Holiday:

Program Dates: One year, from September 1, 2013 - August 31, 2014 (or as soon as can be implemented).

Eligible Businesses: All businesses that are new to San Leandro and physically located

inside the City, excluding residential and commercial rental property owners, amusement devices, 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 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 because of legal restrictions.

PREPARED BY: Jeff Kay, Acting Business Development Manager, Community Development Department



City of San Leandro

Meeting Date: July 15, 2013

Resolution - Council

File Number: 13-380

Agenda Section: ACTION ITEMS

Agenda Number:

TO: City Council

FROM: Chris Zapata
City Manager

BY: Chris Zapata
City Manager

FINANCE REVIEW: Not Applicable

TITLE: ADOPT: Resolution Approving a Business License Tax Holiday for New Businesses (waives business license tax for a period of one year to all businesses that are new to San Leandro and physically located in the City excluding those classified as residential and commercial rental property owners, amusement devices, or waste disposal sites)

WHEREAS, the City Council of the City of San Leandro has stated goals of fiscal sustainability and program development to advance the City's economic position and support innovation; and

WHEREAS, the City of San Leandro is well positioned to benefit from an improving regional economy and numerous ongoing development projects that will bring new investment and economic activity to the City; and

WHEREAS, the Lit San Leandro fiber optic network, the result of a unique public-private partnership, has made San Leandro a desirable location for innovative businesses in technology-based, growth industries; and

WHEREAS, a waiver of the Business License tax for a new business in San Leandro can reduce the costs of starting a business in San Leandro or moving an existing business to San Leandro, and can provide an incentive for businesses to choose to operate in San Leandro; and

WHEREAS, the attraction of new businesses will ultimately lead to increased sales and property tax revenues, expanded job opportunities, and an improved quality of life for all members of the San Leandro community; and

WHEREAS, in 2012, the City Council adopted an "Open for Business Pledge," affirming San Leandro's efforts to support the East Bay's business climate and the ability of companies in the region to create jobs.

NOW, THEREFORE, the City Council of the City of San Leandro does RESOLVE as follows:

That the implementation of a Business License Tax holiday for new businesses is hereby authorized; and

That the Business License Tax Holiday shall apply to all businesses that are new to San Leandro and physically located in the City excluding those classified as residential and commercial rental property owners, amusement devices, or waste disposal sites, and shall run for a period of one year, beginning September 1, 2013, or as soon as can be implemented; and

That the City Manager is authorized to take whatever action is necessary to effect this resolution, including but not limited to any or all of the program parameters described in the accompanying staff report.