



Agenda Item A.1
DISCUSSION/ACTION ITEM
Meeting Date: May 29, 2008

TO: Mayor and Councilmembers
FROM: Daniel Singer, City Manager
CONTACT: Tina Rivera, Finance Director
SUBJECT: Business License Study Results

RECOMMENDATION:

- A. Receive a presentation from Management Partners on the results and findings of the City's recent Business License study; and
- B. Provide direction to staff on potential actions related to the study results.

BACKGROUND:

In November 2007, the City issued a Request for Proposals (RFP) to perform a Business License study. The City's objective for this study was to obtain the following:

- Identify all existing businesses that would be affected by any potential changes to the City's existing, yet limited, Business License program via a wider-reaching program;
- Determine the feasibility of the various alternate Business License programs, including ascertaining public support where voter approval is required;
- Estimate potential revenues generated and resources required by each program option; and
- Develop an inventory of existing businesses that includes number of employees, square footage of building space, and gross revenues.

The consultant selected, Management Partners, was expected to provide sufficient information and analysis upon which the City may draw reasonable conclusions between benefit and burden of the various business license program options. To accomplish this, the Consultant was to:

- Make recommendations for methodology or methodologies best suited for the City prior to completing the report;

- Make recommendations for additional fees and nexus methodologies which may be appropriate for the City to charge;
- Make recommendations to the City on elements of a model business license ordinance;
- Identify new fees or revisions to current fees;
- Provide a comparative analysis of business license programs in surrounding communities;
- Develop and present findings in a manner that fosters understanding, confidence and credibility by City staff, community members and policy-makers.

An important part of the consultant's work also involved interactions with the Chamber of Commerce and a presentation to the business community on the various options available for a City-wide business license program.

DISCUSSION:

The study is now complete and Management Partners is prepared to present the findings to the City Council and public. A copy of the study results are provided with this report as Attachment 1. Preliminary materials were also reviewed by the Council's Finance Committee and questions and comments from the Committee were incorporated into the final report.

The study results provide a fairly comprehensive look of statewide and regional business license programs and how Goleta's business license program compares. Andy Belknap of Management Partners will be present at the meeting to discuss the study results as well as the data that holds the most meaning to the City. Council will have the opportunity to review the information, ask questions, and ultimately provide staff with any further direction related to next actions the City Council wishes to pursue; although no specific action is called for at this time.

In that regard, if Council wishes to pursue any type of Business License Tax, such an action would be subject to a vote by Goleta citizens, under Proposition 218. If a ballot measure were to be considered for the November 2008 General Election, staff would need direction to prepare a draft ordinance for the Council's consideration at a regularly scheduled meeting in June.

This study session also affords the Council the opportunity to hear feedback from the Chamber of Commerce, including the results of a survey they recently completed on the subject, and from the business community as a whole, prior to providing further feedback to staff. Staff and the City's consultant will also be available to answer the Council's questions.

Submitted By:

Reviewed By:

Approved By:

Tina Rivera
Finance Director

Michelle Greene
Admin. Services Director

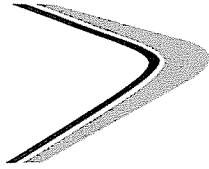
Daniel Singer
City Manager

Attachments:

1. Goleta Business License Study

ATTACHMENT 1

GOLETA BUSINESS LICENSE STUDY



MANAGEMENT PARTNERS

I N C O R P O R A T E D

To: Alvertina Rivera, Finance Director, City of Goleta
From: Andrew Belknap, Regional Vice-President, Management Partners
Subject: Project Update: Goleta Business License Study
Date: May 28, 2008

In February 2008, Management Partners was retained by the City of Goleta to conduct a Business License Study to evaluate and articulate various options related to the establishment of a business tax within the City. As a part of the study, Management Partners has developed a database of businesses located in the City, obtained input from the local Chamber of Commerce, and developed revenue projections based on the level of business tax revenue generated in peer cities and under the City's current business tax ordinance.

Overview of Business Taxes in the City of Goleta and the State of California

Upon incorporation in 2002, the City of Goleta did not alter the business tax structure that was in place under of the County of Santa Barbara. Inheriting the County of Santa Barbara's business tax ordinance has left the City with an ordinance that is a standard practice for cities in California cities. The County business tax system is both antiquated and designed around the needs of a county. In the FY 2008 budget, the City projects that it will receive \$34,000 in revenue from business tax revenues under the current ordinance. This equates to approximately \$1 per capita, which is significantly below the average for California cities. Statewide, the California State Controller reports that in the fiscal year ending in 2005 (the last year for which such information is available) 440 cities in California collected over \$918 million in business license taxes, or about \$30 per capita on average. There are a total of 478 cities in the State, so business taxes are an extremely common revenue source, levied by more than 92% of the California.

Business taxes are, in theory, identical to all other taxes in that they provide a vehicle for the public to remit dollars to a government agency to support public services and facilities. Under the California Constitution, municipal taxes require a vote of the people in the jurisdiction for which the specific tax measure would apply. By law, there need not be a direct relationship between the services and facilities used by an individual taxpayer and the tax paid.

Further, the California Constitution distinguishes between a general tax and a special tax. General tax revenues may be used for any purpose. A majority of voters must approve a new general tax, its increase or extension, in the same election in which city council members are elected. Special tax revenues must be used for a specific purpose, and two-thirds of voters must approve any new special tax – its increase or extension. The creation or altering of special taxes is not tied to the election cycle of city council members.

At present the City of Goleta's business tax is a general tax which gives the City Council board discretion in its use of business tax revenue. As such, barring a declaration of a fiscal emergency or the restriction of tax revenues for a specific purpose, the City will have not have an opportunity to alter its business tax structure until the next regularly scheduled election of city council members in November 2008

Below, we present our methodology to obtain input from the business community on updating Goleta's business tax structure as well as our methodology to create a database of businesses that are physically located within the City.

Methodology

Stakeholder Outreach

On April 24, 2008, Management Partners attended an Issue & Policy Roundtable of the Goleta Valley Chamber of Commerce (GVCC) to present alternative business tax structures that are being considered by the City. There were approximately 18 GVCC members and staff from the GVCC in attendance, along with the City Manager and Finance Director from the City. Following Management Partners' presentation, feedback from the audience was requested. The areas explored included their opinion of Management Partners' presentation, what areas should the city be sensitive to, what type of structure would be best, the potential impact on recruitment, growth and retention of businesses, and suggestions for phased implementation.

The following bullets summarize the feedback from attendees at the April 24th Issue and Policy Roundtable.

- Requests for disclosure on use of business tax funds
- Recommendation to use business tax revenue to fund economic growth and business development programs
- Recommendation to use business tax revenue to support recreation programs that are not self-supported by fees
- Concerns over the loss of the City's business recruitment strength due to the implementation of a new tax on businesses
- Request to quantify the benefits that a business tax program conveys to businesses
- Suggestion to offer a ramp-up or waiver for startups
- Request to find an equitable method to charge businesses which show no gross receipts within the city
- Comment that a gross receipt structure may be preferable to a per employee structure for certain businesses (e.g. start-ups)
- Suggestion to look at City of Camarillo as model of a well-organized and systematic business tax program

In the recommendations which are included in this report, Management Partners and City staff have attempted to be sensitive to the concerns expressed at the GVCC roundtable meeting.

In addition to the above feedback, GVCC initiated an internet based survey of its entire membership to obtain opinions and suggestions for altering the City's business tax program. At the time of this report, the survey is ongoing. Preliminary results highlight that 91% of businesses do not currently pay a business tax. This is almost certainly tied to the fact that the current ordinance applies primarily to businesses that do not have a fixed location within the



City. Further, business leaders appear to favor flat fee and per employee rate structures over ones that are based on gross receipts or the square footage that is occupied by a particular business.

Business Database

To obtain information on businesses located within the City, Management Partners worked with Dun and Bradstreet, an information services company that maintains databases on businesses worldwide. Dun and Bradstreet provided raw data for more than 4400 business located in several United States Postal Service zip codes that fall, at least in part, inside Goleta city limits. Our project team worked with City staff to determine which of the 4400 businesses were actually located within the City's boundaries based on the physical address of each business. The Goleta Business Database includes 2,988 businesses whose physical location in the City was confirmed using geography information system (GIS) software.

The database includes the following information for each business:

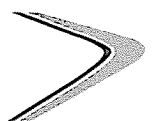
- Business Name
- Telephone Number
- Street Address (and mailing address, when available)
- Chief Executive Officer's Name (when available)
- Year of Establishment (when available)
- Line of Business Description
- Standard Industry Classification Code
- North American Industry Classification System (NAICS) Code
- Sales Volume/Gross Receipt (when available)
- Total Employees (when available)

Management Partners refined the raw data that was provided by Dun and Bradstreet and made adjustments to the data as necessary. In order to produce revenue projections, data related to government organizations, nonprofit businesses and unknown establishments were separated from the core database. Government and non-profit agencies were excluded from the core database because such entities are exempt from business taxes. As a result, the revenue projections in this report only include 2,414 of the business establishments that are located within the City.

It was also necessary to calculate an estimate for missing variables in the sales volume and total employee statistics for specific businesses. These calculations were based on the median sales volume and employee statistics for like businesses in the City. For example, based on the North America Industry Classification System three-digit industry sub-sector codes, there are thirty fabricated metal product manufacturing companies in the City. The original database, however, did not include a sales volume statistic for two of the 30 companies. Management Partners calculated an estimated sales volume for the two missing businesses based on the median sales volume of the remaining 28 fabricated metal product manufacturing companies in the City. In total, Management Partners estimated the sales volume and employee counts for 11% of businesses that were used to calculate preliminary revenue projections.

Goleta Business Statistics

Tables 1 and 2 provide a summary of the key business statistics from the Goleta Business Database. In Table 1, businesses are divided by their respective North American Industrial



Classification System (NAICS) two-digit industry codes. The NAICS codes specifically assigned to government and nonprofits agencies are not included because, by law, such establishments are exempt from business taxes. The data shows that 2,414 businesses in Goleta employ 28,257 persons and achieve a total sales volume of \$4.4 billion.

TABLE 1: GOLETA BUSINESS STATISTICS BY NAICS INDUSTRY SECTOR CODES

NAICS	Industry	Number of Businesses	Number of Employees	Total Sales Volume
11	Agriculture, Forestry, Fishing and Hunting	13	317	\$ 17,230,000
21	Mining, Quarrying, and Oil and Gas Extraction	3	71	\$ 133,500,000
22	Utilities	1	3	\$ 130,000
23	Construction	212	1,053	\$ 134,500,719
31-33	Manufacturing	253	9,223	\$1,992,205,986
42	Wholesale Trade	119	1,836	\$ 568,876,305
44-45	Retail Trade	285	2,722	\$ 204,861,554
48-49	Transportation and Warehousing	55	899	\$ 54,418,420
51	Information	83	789	\$ 66,769,003
52	Finance and Insurance	101	662	\$ 91,181,997
53	Real Estate and Rental and Leasing	102	639	\$ 35,182,619
54	Professional, Scientific, and Technical Services	406	2,832	\$ 513,601,027
55	Management of Companies and Enterprises	3	6	\$ 237,000
56	Administrative and Support and Waste Management and Remediation Services	204	1,533	\$ 99,217,474
61	Educational Services	47	820	\$ 21,608,000
62	Healthcare and Social Assistance	192	2,206	\$ 408,988,961
71	Arts, Entertainment, and Recreation	50	382	\$ 23,005,000
72	Accommodation and Food Services	113	1,675	\$ 34,290,000
81	Other Services (except Public Administration)	172	589	\$ 20,060,000
TOTAL		2,414	28,257	\$4,419,864,065

Table 2 displays the same key business statistics shown in Table 1, but instead of grouping businesses by NAICS codes, Table 2 groups Goleta businesses into five categories that often serve as the basis for business tax structures.

TABLE 2: GOLETA BUSINESS STATISTICS BY COMMON BUSINESS TAX CATEGORIES

Common Business Tax Categories	Number of Businesses	Number of Employees	Total Sales Volume
Automobile Sales	18	276	\$ 53,373,504
Retail Sales (excluding auto sales)	267	2,446	\$ 151,488,050
Professional Services	899	6,461	\$ 806,189,120
Restaurants	102	1,243	\$ 25,897,000
Other	1,128	17,831	\$3,382,916,391
TOTAL	2,414	28,257	\$4,419,864,065



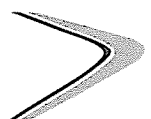
Peer Based Revenue Projections

City staff collected peer benchmarking information in preparation for this Study by surveying twenty-four peer jurisdictions in Santa Barbara, Ventura, and San Luis Obispo counties. Business tax revenues for FY 2006/07 and detailed business tax structures were obtained from 14 of the 24 jurisdictions that were surveyed. Table 3 provides a summary of the benchmarking information collected by the City.

TABLE 3: SURVEY OF NEARBY CITY BUSINESS TAX APPROACH

County/City	FY 06/07 Business License Revenue	Tax, Fee or Combo	Rate Structure			
			Restaurants	Retail Sales	Automobile Sales	Professional Services
SLO County:						
Arroyo Grande	81,821	Fee	flat rate and per employee			
Atascadero	169,685	Combo	flat rate and per employee			
Paso Robles	376,088	Tax	gross receipts	gross receipts or flat rate/\$250	flat rate \$80/year	
Pismo Beach	147,119	Fee	gross receipts			
San Luis Obispo	1,706,700	Combo	gross receipts and flat fee			
S.B. County:						
Carpinteria	41,000	Fee	flat rate and per employee	n/a	flat rate and per employee	
Lompoc	340,723	Tax	gross receipts			
Santa Barbara	2,214,235	Tax	gross receipts			# of employee
Santa Maria	304,354	Tax	flat rate/seating capacity	gross receipts and flat fee	flat rate/yr	
Solvang	21,810	Fee	flat rate/yr			
Ventura County:						
Camarillo	1,307,407	Tax	gross receipts			# of employees or gross receipts
Ojai	143,623	Tax	flat rate and per employee			
Oxnard	4,560,120	Tax	gross receipts	flat rate	gross receipts or flat fee per professional /employee	
Santa Paula	29,142	Tax	gross receipts			
Thousand Oaks	1,826,253	Tax	gross receipts			
Ventura	1,479,714	Tax	gross receipts and flat fee			
Note: The Cities of Grover Beach, Morro Bay, Guadalupe, Fillmore, Moorpark, Port Hueneme and Simi Valley have a tax but did not provide information. The City of Buellton does not have a business license tax						

In the above comparisons it is worth noting that the City of San Luis Obispo has something of a hybrid type of business tax/licensing approach in that it includes service, regulatory, and code



compliance inspections with business tax payments. In this way the City accomplishes a service objective (insuring that safety and other codes are being followed) along with the generation of tax revenues. San Luis Obispo's revenue generation is also relatively high, which probably reflects both the off-setting of inspection costs and the City's strong local business base. Many cities take this combination approach. One of the largest cities in the State, Long Beach, has used this approach successfully for many years. The City's Fire Department works with the Finance Department to carry out the inspections and collect fees.

The following revenue projections utilize sales volume and employee statistics from the Goleta Business Database as well as business tax information from peer jurisdictions. Table 4 illustrates basic business tax revenue statistics for the 14 jurisdictions that responded to the City's survey.

TABLE 4: PEER CITY BUSINESS TAX REVENUE STATISTICS

City	2006 Population	FY 2006/07 Business Tax Revenue	FY 2006/07 Per Capita Business Tax Revenue
Arroyo Grande	16,415	\$ 81,821	\$ 4.98
Atascadero	27,343	\$ 169,685	\$ 6.21
Camarillo	62,489	\$1,307,407	\$20.92
Carpinteria	13,490	\$ 41,000	\$ 3.04
Lompoc	42,015	\$ 304,723	\$ 7.25
Ojai	7,861	\$ 143,623	\$18.27
Oxnard	184,463	\$4,560,120	\$24.72
Paso Robles	27,973	\$ 376,088	\$13.44
Pismo Beach	8,394	\$ 147,119	\$17.53
San Luis Obispo	42,963	\$1,706,700	\$39.72
Santa Barbara	85,681	\$2,214,235	\$25.84
Santa Maria	84,712	\$ 304,354	\$ 3.59
Solvang	5,121	\$ 21,810	\$ 4.26
Ventura	104,092	\$1,479,714	\$14.22
AVERAGE	50,929	\$ 918,457	\$14.57
MEDIAN	34,994	\$ 304,539	\$13.83



The following chart further illustrates the range of per capita business tax revenue generation in Goleta and its peers.

FIGURE 1: PER CAPITA BUSINESS TAX REVENUE

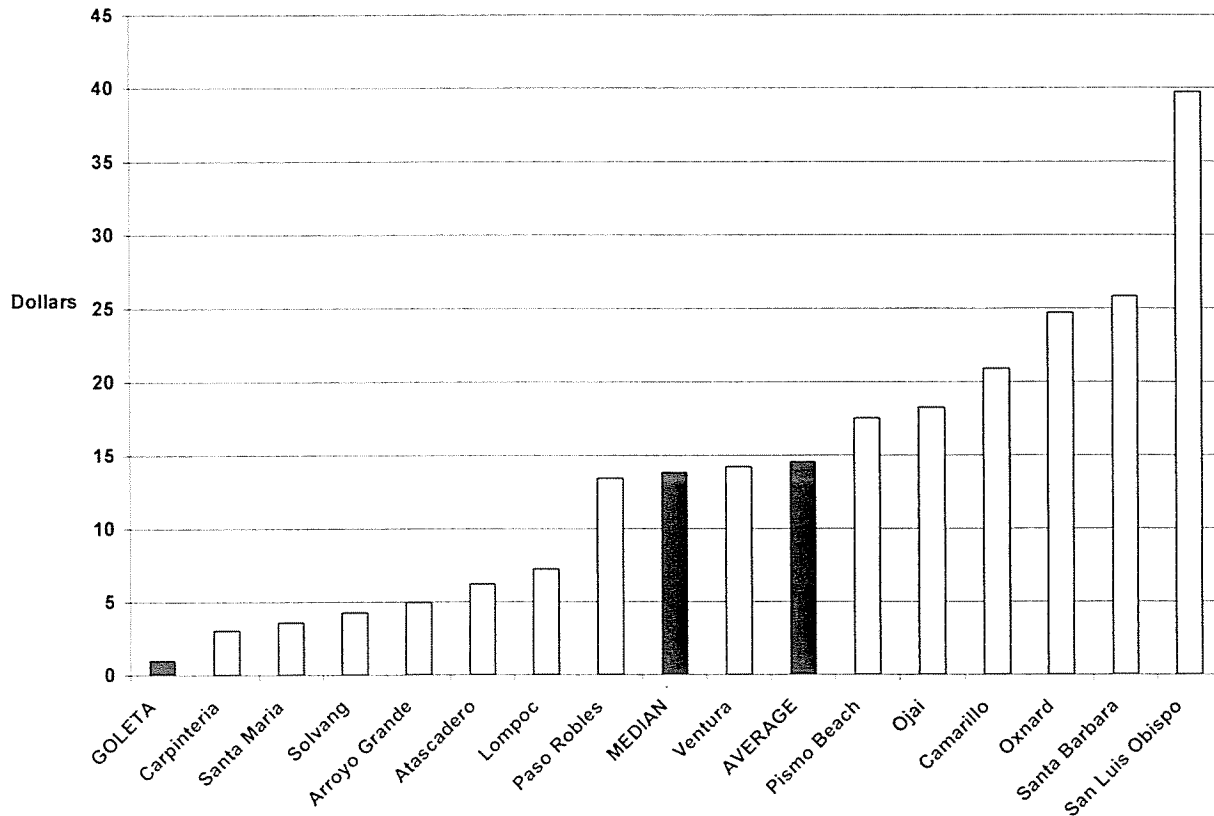


Table 5 calculates the revenue that the City of Goleta would generate based on the FY 2006/07 per capita revenue figures in each peer city (as presented in Table 4 and Figure 1). For example, Table 5 illustrates that should Goleta achieve the same per capita revenue generation as the City of Santa Barbara (\$25.84 per capita), business tax revenue in Goleta would be approximately \$754,000. It should be noted that the underlying size of the business sector in the various communities impacts revenue generation and thus there is no guarantee that overlaying a particular tax structure on Goleta business would result in equivalent revenue generation – it could be either higher or less than that observed in the peer jurisdictions. However, Management Partners’ experience working with cities suggests that Goleta has a relatively strong business base, probably because the City is an attractive base for operations aimed at serving the entire Santa Barbara/Montecito area.

Table 5 also illustrates that the median business tax revenue among peer cities is \$13.83 per capita. Thus, should Goleta achieve the per capita median in peer cities, the City would generate approximately \$403,600 in business tax revenue.



TABLE 5: PEER CITY PER CAPITA REVENUE GENERATION APPLIED TO GOLETA

City	Per Capita Revenue Generation Applied to Goleta
Arroyo Grande	\$ 145,458
Atascadero	\$ 181,097
Camarillo	\$ 610,551
Carpinteria	\$ 88,693
Lompoc	\$ 211,649
Ojai	\$ 533,165
Oxnard	\$ 721,410
Paso Robles	\$ 392,343
Pismo Beach	\$ 511,464
San Luis Obispo	\$1,159,251
Santa Barbara	\$ 754,144
Santa Maria	\$ 104,845
Solvang	\$ 124,284
Ventura	\$ 414,835
AVERAGE	\$ 425,228
MEDIAN	\$ 403,589

The above peer-based per capita projections provide a basic evaluation of the potential level of business tax revenue generation that is available to Goleta. However, business tax revenues are derived from business activity and not resident population so this is a rough measure that assumes business activity is proportionate to population.

Table 6 provides a somewhat better estimate using peer-based revenue projections based on a model that accounts for the unique makeup of businesses in Goleta. The model applies peer business tax charges to Goleta's businesses based on the discrete industry tax rates in peer cities. The projections reflect the specific gross receipt, flat rates, and per employee rates in peer cities. Table 6, however, does not distinguish between professional and non-professional charges because reliable data on the prevalence of professional licenses is not available, and thus is not included in the Goleta Business Database.

In Management Partners' experience, a new business tax program can typically expect to achieve a 50% to 75% remittance rate in the first 2-3 years of the program. As a result, the revenue projections in Table 6 include a range to reflect these assumed remittance rates. However, it is also important to point out that cities also derive business tax revenues from vendors that do not have a fixed location within their city but are working within the City's limits. Therefore, since such businesses are not included in the Goleta Business Database, the following presents a conservative estimate of potential business tax revenues.

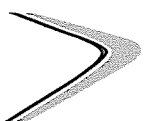


TABLE 6: PEER CITY BUSINESS TAX STRUCTURE REVENUE GENERATION APPLIED TO GOLETA

City	Low	High
Arroyo Grande	\$ 104,118	\$ 156,176
Atascadero	\$ 372,828	\$ 559,241
Camarillo	\$ 815,465	\$1,223,197
Lompoc	\$ 939,221	\$1,408,832
Ojai	\$ 129,312	\$ 193,969
Oxnard	\$1,082,867	\$1,624,300
Paso Robles	\$ 773,476	\$1,160,214
Pismo Beach	\$ 651,930	\$ 977,895
San Luis Obispo	\$1,106,822	\$1,660,233
Santa Barbara	\$ 662,980	\$ 994,469
Santa Maria	\$ 890,449	\$1,335,674
Ventura	\$ 275,421	\$ 413,131
AVERAGE	\$ 650,407	\$ 975,611
MEDIAN	\$ 718,228	\$1,077,342

Alternative Business Tax Options for Goleta

There are a variety of methods commonly used to calculate business license taxes. Management Partners looked specifically at three of these options and calculated rate structures and corresponding revenue estimates for the City of Goleta. Each of the following tax structures attempts to generate approximately \$700,000 and \$1.1 million, which is the median level of business tax revenue generated among Goleta's peers (as illustrated in Table 6). It is also worth noting that if the City collected the average per capita business tax revenue for California cities (\$30 per capita), the City would collect approximately \$800,000 annually, an amount that falls within the identified range based on peer tax structures,

Alternative 1: Gross Receipt Rate Structure

Table 7 shows a business license program based on gross receipts. This model assumes a rate of \$0.16 to \$0.24 per \$1,000 of gross receipts, with a minimum payment of \$100 per business. This rate structure will generate approximately \$860,000 to \$1,195,000 in revenues, based on using rates of \$0.16 and \$0.24 per \$1,000 of gross receipts, respectively.

TABLE 7: GROSS RECEIPT OPTIONS AND HYPOTHETICAL BUSINESS TAXES

Gross Receipt Rate Structure at \$0.16 per \$1,000, with a \$100 minimum tax

Hypothetical business with gross receipts	Annual Tax
Under \$610,000	\$100
Between \$700,000 to \$2.5 million	\$114 to \$400
Between \$5 million to \$15 million	\$800 to \$2,400

Gross Receipt Rate Structure at \$0.24 per \$1,000, with a \$100 minimum tax

Hypothetical business with gross receipts	Annual Tax
Under \$410,000	\$100
Between \$700,000 to \$2.5 million	\$170 to \$610
Between \$5 million to \$15 million	\$1,200 to \$3,600



Alternative 2: Per Employee Rate Structure

Table 8 illustrates the potential fees calculated using the number of employees, assuming a per employee rate of \$25 to \$40, with a minimum tax of \$100 for each business. The potential revenue generated using this method is \$795,000 to \$1186,000, based on using the rates of \$25 and \$40 per employee, respectively.

TABLE 8: PER EMPLOYEE PROGRAM OPTIONS AND HYPOTHETICAL BUSINESS TAXES

Per Employee Rate Structure at \$25 per employee, with a \$100 minimum tax

Hypothetical business with...	Annual Tax
2 employees (minimum tax)	\$100
10 employees	\$250
25 employees	\$625
125 employees	\$3,750

Per Employee Rate Structure at \$40 per employee, with a \$100 minimum tax

Hypothetical business with...	Annual Tax
2 employees (minimum tax)	\$100
10 employees	\$400
25 employees	\$1,000
125 employees	\$6,000

Conversely, if Goleta only wishes to generate revenues equal to the average per capita revenues generated by the peer jurisdictions, it would only need to charge a per employee charge of about \$15, with a minimum tax of \$100 for each business. Applying this per employee charge to the 29,182 employees in Goleta will generate about \$545,000.

In addition, the City can consider adopting a per employee rate structure on a sliding scale that will decrease the per employee rate for large businesses. Such a rate structure will provide a measure of relief to larger businesses who typically shoulder a proportionally larger tax burden.

Alternative 3: Lowest Cost Option Rate Structure (Gross Receipts and Per Employee Rates)

Under this approach the City of Goleta could establish a business tax structure that utilizes a combination of gross receipts and per employee rates, as illustrated in tables seven and eight, respectively. Specifically, each business would have the option to choose between each of the two aforementioned rates, with the assumption that they will choose the lesser of the two calculations. Utilizing this combination rate system, Goleta should expect revenues of about \$580,000. This amount assumes using the higher rates of the ranges described above (\$0.24 per \$1,000 of gross receipts and \$40 per employee, each with a \$100 minimum tax).



Alternative 4: Flat Fee Rate Structure

Table 9 illustrates flat rates based on the type of business, with each business paying a flat rate of between \$250 to \$800. The expected revenue generated using this method is \$700,000 to \$1,100,000.

TABLE 9: FLAT FEE PROGRAM OPTION AND HYPOTHETICAL BUSINESS TAXES

Business Category	Annual Fee
Auto Sales	\$500
Professional Services	\$250
Restaurants	\$600
Retail	\$250 to \$500
Other	\$500 to \$800

Alternative 5: City of Santa Barbara's Rate Structure

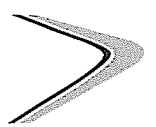
The City of Goleta can also choose to adopt the business tax structure that is present in the neighboring jurisdiction of the City of Santa Barbara. Table 10 details the method used in Santa Barbara and the potential revenues if this method were used in Goleta. Since the data does not provide the breakdown by type of employee for professional services, projections are made using \$20 per employee in order to keep them conservative. Despite this conservative factor, total revenues utilizing Santa Barbara's calculation method is around \$1.2 million. As noted in Tables 3 and 4, Santa Barbara's business tax revenues are among the highest in the comparison jurisdictions. However, Santa Barbara is probably also the main competitor that the City of Goleta has with respect to business recruitment and retention given its geographic proximity.

TABLE 10: SANTA BARBARA METHOD AND HYPOTHETICAL

Business Category	Annual Fee	Projected Revenue
Auto Sales	\$0.30 per \$1,000 gross receipts	\$ 16,012
Professional Services	\$100 per professional + \$40 per salaried professional + \$20 per non-professional or clerical	\$ 129,224
Restaurants	\$0.30 per \$1,000 gross receipts	\$ 7,769
Retail	\$0.40 per \$1,000 gross receipts	\$ 60,595
Other	\$0.30 per \$1,000 gross receipts	\$1,014,875
Total		\$1,228,475

Alternative 6: Extension of Current Rate Structure to All Businesses

Another option that is available to the City of Goleta is to revise its current business tax ordinance by extending the existing rate structure to all businesses with a physical location in the City. Under the current ordinance, the basic structure mandates that "every person conducting business or carrying on a business of any kind...who does not maintain a fixed place of business in the [city] shall obtain a general business license and shall pay a quarterly fee of twenty-five dollars thereof." This amounts to an annual fee of \$100. Should the City choose to extend the basic rate structure of \$100 per year to all establishments conducting business in the



City, Management Partners estimates that the City will increase its current business tax revenue from \$34,000 to approximately \$275,000 annually.

Table 11 provides a summary of each of the aforementioned alternative business tax options for the City of Goleta. The associated recommended rates and projected revenue figures are presented.

TABLE 11: SUMMARY OF ALTERNATIVE BUSINESS TAX OPTIONS FOR GOLETA

Alternative Rate Structures	Projected Revenue
Alternative 1: Gross Receipt Rate Structure	
<u>Recommended Rates</u>	
\$0.16 per \$1,000 of gross receipts (\$100 minimum tax)	860,000
\$0.24 per \$1,000 of gross receipts (\$100 minimum tax)	1,195,000
Alternative 2: Per Employee Rate Structure	
<u>Recommended Rates</u>	
\$25 per employee (\$100 minimum tax)	795,000
\$40 per employee (\$100 minimum tax)	1,186,000
Alternative 3: Lowest Cost Option Rate Structure (Gross Receipts and Per Employee Rates)	
<u>Recommended Rates</u>	
\$0.24 per \$1,000 of gross receipts and \$40 per employee (\$100 minimum tax)	580,000
Alternative 4: Flat Fee Rate Structure	
<u>Recommended Rates</u>	
Shown in Table 9	700,000 to 1,100,000
Alternative 5: City of Santa Barbara’s Rate Structure	
<u>Recommended Rates</u>	
Shown in Table 10	1,200,000
Alternative 6: Extension of Current Rate Structure to All Businesses	
<u>Recommended Rates</u>	
\$100 for most businesses located in the City, various rates for others	275,000

Business Tax Administration Fee

California law authorizes cities to collect fees to cover the costs of public services reasonably borne. To this end, cities across the State have established administration fees to offset the costs associated with collecting and administering business tax programs. In Management Partners’ experience, cities charge businesses administration fees that range from \$25 to \$50. Occasionally, cities implement one-time setup fees as well as annual renewal fees that are 50% to 75% lower than the initial set-up fee. Information on business tax administration fees was not specifically included in the City’s benchmarking survey, although two cities (Carpinteria and San Luis Obispo) did provided such information. The administration fee in both cities is \$25. Based on the number of establishments in the Goleta Business Database, should the City implement an administrative fee of \$25, the fee would generate \$65,350 annually.



Recommendation

Based on the above models, as well as the input received from the workshop with the Goleta Valley Chamber of Commerce, Management Partners recommends that the City of Goleta revise its current business tax program to utilize a per employee rate structure. As described as Alternative 2 above, a per employee business tax program in Goleta, that is in line with the charges and revenue generation in peer cities, will generate approximately \$795,000 to \$1,182,000 annually, using rates of \$25 and \$40 per employee respectively. This approach will maintain Goleta's relative competitive advantage in terms of economic development efforts, by charging rates similar those of peer cities and implementing a rate structure that can be clearly articulated to the local business community, while also increasing General Fund revenues.

Under the recommended per employee rate structure (\$40 per employee), the vast majority (85%) of businesses will pay \$500 or less in businesses taxes. However, taken together, those businesses will generate only \$312,400 of the projected tax revenue. The remaining 15% of businesses, the largest businesses in the City, will pay 74% of the projected business tax revenue (approximately \$873,400). This is typical of any proportionate tax structure.

Management Partners also recommends that the City of Goleta index any new or revised business tax rates to inflation. In Management Partners experience, it is a best practice for cities to index certain business tax rates to the Consumer Price Index that is developed annually by the U.S. Department of Labor. Cities that do not link taxes and fees to inflation and regularly update such charges run the risk of seeing the economic value of their taxes and fees erode over time.

Lastly, a per employee rate structure will also limit the operating costs of administering a business tax program in the City. Due to the current staffing resources that are currently available in the Finance Department, it is likely that additional resources will be needed to appropriately administer a modern business tax program. City staff estimates that it will require one additional person in the Finance Department to administer a revised business tax program that applies to both local and transient businesses. Costs estimates include additional administrative costs of \$66,000 to \$80,000 for salary and benefits, as well as \$7,500 in operational supplies (postage, printing, etc.). These estimates are sensitive to the regulatory requirements that would be included in a revised business tax ordinance. Management Partners recommends that the City adopt an administrative fee to support the operating costs a business tax program. As noted above, an administrative fee of \$25 would generate \$65,350 annually.

