

**CITY OF BELMONT
CITY COUNCIL AND BELMONT FIRE
PROTECTION DISTRICT BOARD OF
DIRECTORS**



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CITY COUNCIL SPECIAL MEETING AGENDA

Tuesday, April 23, 2024

6:15 PM

City Council Chambers

City Hall, One Twin Pines Lane, Belmont, California

The meeting will be broadcast live to Belmont residents on Comcast Cable Channel 27, streamed live via the City's website at www.Belmont.gov. The public may also attend the meeting in the City Council Chambers and address the council from the chambers.

PUBLIC COMMENT:

To maximize time for live public comment, we encourage members of the public to provide comments by joining the City Council meeting via Zoom : For web, visit <https://belmont-gov.zoom.us/> select "Join" and enter **Meeting ID: 95745673035**. Use the Raise Hand feature to request to speak. You may rename your profile if you wish to remain anonymous.

For dial- in comments, call *67 1-(669) 900-6833 (your phone number will appear on the live broadcast if *67 is not dialed prior to the phone number), enter **Meeting ID: 95745673035**, and press *9 to request to speak. All public comments are subject to a 3-minute time limit unless otherwise determined by the Mayor.

If you wish to submit written public comment, you may send an email to cclerk@belmont.gov before the council considers the item. Please indicate the agenda item topic or agenda item number you wish to comment on in your email's subject line. Any public comment regarding agenda items that are received from the publication of the agenda through the meeting date will be made part of the meeting record, but will not be read during the Council meeting.

1. ROLL CALL

2. ITEMS OF BUSINESS

Persons wishing to orally address the Council on the items of business listed below will be given an opportunity to do so before or during the Councils consideration of the item.

3. STUDY SESSION

General Business items are considered separately, typically in the order listed. The Chair will call for public comment on each item when the body considers the item.

A. Business License Tax Update

Recommendation: Receive a presentation on the Business License Tax Update effort, including a recommended model, and provide direction on next steps

Attachment(s):

[Staff Report](#)

[Draft Alternative Business License Models](#)

[Survey Findings](#)

4. ADJOURNMENT

If you need assistance to participate in this meeting, please contact the City Clerk at (650) 595-7414.

Notification in advance of the meeting will enable the City to make reasonable arrangements to ensure accessibility to this meeting. Meeting information can also be accessed via the internet at: www.belmont.gov.

All staff reports will be posted to the web in advance of the meeting, and any writings or documents provided to a majority of the City Council/District Board or Commission regarding any item on this agenda will be made available for public inspection in the City Clerk's Office, One Twin Pines Lane, during normal business hours and at the Council Chambers at City Hall, Second Floor, during the meeting.

AGENDA POSTING: I declare a copy of this agenda was posted at City Hall, One Twin Pines Lane, and the City's website www.belmont.gov on _____, by _____ p.m. /s/ _____



STAFF REPORT

Meeting Date: April 23, 2024
Agency: City of Belmont
Staff Contact: Kathy Kleinbaum, Assistant City Manager, kkleinbaum@belmont.gov; Karen Clark, Management Analyst, kclark@belmont.gov
Agenda Title: Business License Tax Update
Agenda Action: Discussion & Direction

Recommendation

Receive a presentation on the Business License Tax Update effort, including a recommended model, and provide direction on next steps.

Strategic Focus Area

Fiscal and Organizational Sustainability

Background

Belmont's current business license tax program was established in 1976 and last updated in 1990. The City is now contemplating changes to the 40-year-old model to modernize it and address any imbalances. A Belmont business license is required annually for anyone conducting business within the City, including home-based and brick-and-mortar businesses of all trades, professions, and occupations. Exempted businesses include charitable and non-profit organizations and certain businesses generating revenue under \$1,500 annually. A full list of exemptions may be found in Belmont City Code Section 12-4.

Under the current business license program, most businesses are subject to the minimum tax of \$341 regardless of business size or revenue, resulting in businesses with lower revenues paying a significantly higher effective tax rate. For example, a part-time, home-based business owner generating \$10,000 in business revenue annually pays the same minimum tax as the owner of a four-unit property rental or a sole-proprietor professional generating revenues of \$500,000 per year.

Altogether, the City's business license program generates approximately \$1.1 million for the City annually, constituting about 4% of general fund revenue. These funds support essential city services such as 911 response times, safe and clean public streets and facilities, and the continued delivery of quality of life services such as high-quality parks and recreation programs and amenities. These city services are utilized by businesses, their employees, and customers, and contribute to making Belmont a great place to live, visit, shop, and conduct business.

Modernizing the business license program was first prioritized by the Belmont City Council in 2019. In May 2020, staff conducted a series of Belmont business focus groups and these, along with staff and Council discussions, informed the following "guiding principles," intended to guide in the evaluation of any alternative model.



- Fairness: Address imbalances and inequities in the current model
- Adaptability: Reflect current and future business trends
- Comparability: Comparable structure used in surrounding peer agencies
- Simplicity: Simple for businesses to understand
- Streamlined: Reduce stumbling blocks to administer and provide quick processing times

Based on these criteria, in June 2020, the Council reviewed several possible alternative business license models but deferred action to avoid any changes for businesses during the early COVID-19 pandemic. A year later, staff conducted a business leaders roundtable to revive the discussion with the business community and shortly thereafter the Council unanimously supported proceeding with a business (gross) receipts model under which rates varied by business type and were applied to gross revenues.

In May 2022, the Council reaffirmed their support for proceeding with a business receipts model but directed staff to conduct further business outreach, resulting in three business forums. In June 2022, staff presented the Council with business feedback and the resulting revised model, including possible alternative rates for some categories and a “phase-in” option. However, due to business concerns around increases for some business types, rate comparability with other cities, and ensuring projections were estimated using appropriate data and methodology, the Council appointed a subcommittee to explore further model revisions. Ultimately, the Council prioritized the transient occupancy (hotel room) tax update instead, with staff directed to revisit the business license program for possible November 2024 ballot placement.

In November 2023, the Council confirmed the intention to revisit updating the business license program, reaffirmed the guiding principles (including revenue neutrality, with no overall financial gain or loss to the City), and identified Councilmembers Hurt and Pang-Maganaris to serve on a subcommittee to work with staff and business stakeholders to determine the best model to bring forth to the Council.

Analysis

Earlier this year, the City entered contracts with HdL Companies and BakerTilly (formally Management Partners) to assess alternative business license models and conduct outreach to the business community. Over the past few months, staff have worked with the consultant team and Chamber San Mateo County to engage local businesses in this discussion through business forums, focus groups, an online survey, and general updates. Input from business stakeholders and the Council Subcommittee has been critical to the formation of each stage of outreach and has informed staff’s model recommendation to the City Council.

In February 2024, staff hosted three Business Forums to frame the challenges with the current business license tax program and listen to businesses’ perspective, as well as convey the City’s commitment to the guiding principles and revenue-neutrality (with no overall financial gain or loss to the City) in any potential update. During these forums, businesses expressed concerns about Belmont’s high minimum tax compared to other cities but also had reservations about any alternative model based on business (gross) receipts. A primary concern with a business receipt model was the potential impact on businesses with narrow profit margins, such as restaurants and retail establishments.



Based on business feedback and the guiding principles, staff identified three draft, revenue-neutral models to present to the business community for comparison with the current model. These models are summarized below and further detailed in Attachment A.

- Current Model: A base (minimum) tax with a per employee or real estate unit fee
- Model A: An update of the current model with a lower minimum tax but higher per employee or per real estate unit fees
- Model B: A business receipt model with a different percentage applied to each business category to account for those with narrower business margins
- Model C: A tiered tax table with a flat rate depending on the range of business receipts (e.g., \$0-\$10,000 equals a flat rate of \$25); this model reverts to Model B for revenue exceeding \$3 million

The draft alternative models were shared with the business community first at three March 2024 business focus groups, and then more widely via an online survey. In both settings, a “tax calculator” was provided, allowing businesses to confidentially determine their rates under each model. Then, they were asked to provide feedback regarding the current *and* alternative models’ adherence to the guiding principles as well as the model resulting in their lowest tax payment and their overall preferred model.

Highlights from the survey and focus groups include the following. Survey results are expanded upon in Attachment B.

- 120 businesses participated in the survey; 79% were based in Belmont and 59% had a brick-and-mortar location (i.e., were not home-based)
- Survey participants represented a broad spectrum of business types currently in Belmont
- When model preference (including the current model *and* three alternatives) was analyzed for all survey respondents, “gross receipts by category” was the most preferred model, selected as the top choice by 46% of respondents; conversely, the current model was the most preferred by 22% of respondents, indicating support for a model revision
- When model rankings (including the current model *and* three alternatives) were analyzed by business category, “gross receipts by category” was ranked first most frequently and was the only model ranked first or second across all business categories
- During the focus groups, several business owners who previously expressed concerns about gross receipts-based models indicated “gross receipts by category” was their preferred model after calculating the actual projected payment for their business.

Recommendation

Based on business feedback, staff recommends proceeding with a business (gross) receipts by category model for a potential November 2024 ballot measure. This model provides a balanced approach by applying a different percentage to each business category to account for those with narrower margins, thus addressing a primary business concern. In terms of the guiding principles, this model was ranked by the 120 survey participants as the most “fair,” “adaptable,” and “comparable,” coming in as a close second on the remaining two guiding principles of “simple” and “streamlined.”



By nature, a business receipts model is intended to be balanced, ensuring that each business type pays their fair share. Based on the rates proposed under this model, revenue neutrality is achieved by some businesses seeing higher rates (compared to current), though the majority would see a decrease (an estimated 63% of Belmont businesses and 55% of all businesses registered in the City would see reductions). This is largely attained by significantly lowering the minimum tax (from \$341 to \$25), which would not only be fairer for small businesses, but also bring Belmont in line with other local cities and encourage more small businesses to register.

Staff is also recommending two small adjustments to category rates tested in the focus groups and survey. These changes, shown in Attachment A, are based on focus group and subcommittee feedback and impact retail/restaurant businesses and residential property rentals. Even with the adjustments, the model is projected to be revenue neutral for the City and would still result in most businesses, including retail/restaurant businesses and residential property rentals, seeing rate reductions.

Next Steps

Staff requests that the Council provide direction on whether to continue business stakeholder outreach for a potential November 2024 ballot measure. If so, staff will prepare for a second round of business forums to be held in May to present the recommended model, receive business feedback, and consider any further adjustments. Based on subcommittee and business feedback to-date, the proposed model will be referred to as a “business receipts” model moving forward, and the latest proposed rates are included in Attachment A. Following the second round of business forums, a final proposed model would be brought to the Council in June 2024 to allow time to prepare a measure for placement in this fall’s elections.

Alternatives

- 1. Take no action: Leave the business license tax as a base plus employee or real estate unit, which is outdated and burdensome for most business types
- 2. Return to staff for additional information

Attachments

- A. Draft Alternative Business License Models
- B. Survey Findings

Fiscal Impact

☐ No Fiscal Impact

☒ Funding Source Confirmed:

Business License Tax is an important source of locally controlled General Fund revenue that provides essential public safety, infrastructure, and quality of life services to the Belmont community.

Source:

Staff

Purpose:

Council Vision/Priority

Public Outreach:

Posting of Agenda

Draft Models



Model A: Employee/Real Estate Unit (Draft)

Category	Unit	Employee Threshold	Base	Rate Per Unit (Below Threshold)	Rate Per Unit (Above Threshold)
General Business	Employee Count	25	\$200.00	\$75.00/ Employee	\$50.00/ Employee
Rental (Commercial)	Sq. Footage	-	\$200.00	\$0.25/Sqft	-
Rental (Residential)	Rental Unit	-	\$200.00	\$60.00/Unit	-
Total Est. City Revenue					\$1.13M

Highlights

- Revision of current model
- Base plus rate per unit or square footage for rentals
- Base plus rate per employee for all others
- Reduce Minimum tax: \$200
- Requires Ongoing CPI adjustments

Model B: Gross Receipts by Category (Revised)

Category	Rate Per \$1,000 (Original Draft)	Rate Per \$1,000 (Revised Proposal)
Retail/Restaurant	\$0.30	\$0.40
Professional/Professional Service	\$1.00	\$1.00
Contractors	\$1.00	\$1.00
Other Service	\$0.75	\$0.75
Commercial Rental	\$1.00	\$1.00
Residential Rental	\$0.50	\$1.00
Total Est. City Revenues	\$1.15M	\$1.26M

Highlights

- Percentage applied to gross receipts from prior tax return
- Lower percentage applied to businesses with smaller margins
- Minimum tax: \$25
- No future CPI adjustments required
- Rate revisions based on Council subcommittee and business feedback

Model C: Tiered Flat/Hybrid (Draft)

Tier	Gross Receipts (Range Min.)	Gross Receipts (Range Max.)	Flat Rate
Tier 1	\$0	\$10,000	\$25
Tier 2	\$10,001	\$50,000	\$75
Tier 3	\$50,001	\$100,000	\$150
Tier 4	\$100,001	\$300,000	\$250
Tier 5	\$300,001	\$500,000	\$325
Tier 6	\$500,001	\$800,000	\$550
Tier 7	\$800,001	\$1,000,000	\$750
Tier 8	\$1,000,001	\$2,000,000	\$1,000
Tier 9	\$2,000,001	\$3,000,000	\$1,200
Tier 10	\$3,000,000+		\$1,200 + Model B rates for amount >\$3M
Total Est. City Revenues			\$1.18M

Highlights

- Most common model locally
- Any portion of gross receipts exceeding \$3 million follows Model B
- Minimum tax: \$25
- Requires Ongoing CPI adjustments

Hypothetical Business Impacts

Rate decrease | rate increase

Hypothetical Business Example	Current Rate	Model A Employee/ Real Estate Unit	Model B Rev. Gross Receipts by Category	Model C Tiered Flat/ Hybrid
Home-Based Small Business (0 Employees; \$20,000)	\$341	\$200	\$25	\$75
Home-Based Prof. (0 Employees; \$125,000)	\$341	\$200	\$125	\$250
Sole Proprietor Prof. (0 Employees; \$750,000)	\$341	\$200	\$750	\$550
Small Restaurant (3 Employees; \$450,000)	\$446	\$425	\$180	\$325
Mid-Sized Restaurant (20 Employees; \$1,900,000)	\$1,041	\$1,700	\$760	\$1,000
Big Retailer (80 Employees; \$15,000,000)	\$3,141	\$4,825	\$6,000	\$4,800
Small Residential Rental (4 units; \$144,000)	\$341	\$440	\$144	\$250
Large Residential Rental (50 units; \$1,800,000)	\$1,850	\$3,200	\$1,800	\$1,000
Commercial Rental (50,000 sqft; \$3,500,000)	\$413	\$12,700	\$3,500	\$1,700
Professional Office (10 Employees; \$2,100,000)	\$691	\$950	\$2,100	\$1,200
Contractor (0 Employees; \$75,000)	\$341	\$200	\$75	\$150
Mid-Sized Contractor (3 Employees; \$225,000)	\$446	\$425	\$225	\$250

Draft Business Category Examples

- **Retail/Restaurant** – Businesses selling tangible goods and/or food and beverages. Includes grocery stores, boutiques, crafts, cafes, food trucks, restaurants, etc.
- **Professional/Professional Services** – Included businesses such as architects, engineers, accountants, financial advisors, real estate agents, insurance agents, lawyers, computer programming, medical/health practitioners, therapists, counselors, etc. Administrative offices or headquarters for a business are professional services.
- **Other Services** – Included businesses such as auto repair, drycleaners, nail salons, beauty treatments, massage therapists, tutoring, physical trainers, equipment/appliance repair, gardeners, cleaning services, etc.
- **Commercial Rental Property** – Rental property used for a commercial purpose including office/retail/industrial space and storage facilities.
- **Residential Rental Property** – Includes rental of apartments, houses, and duplexes; short-term rentals; and hotels.

Survey Findings



120 Survey Responses

79% Based in Belmont



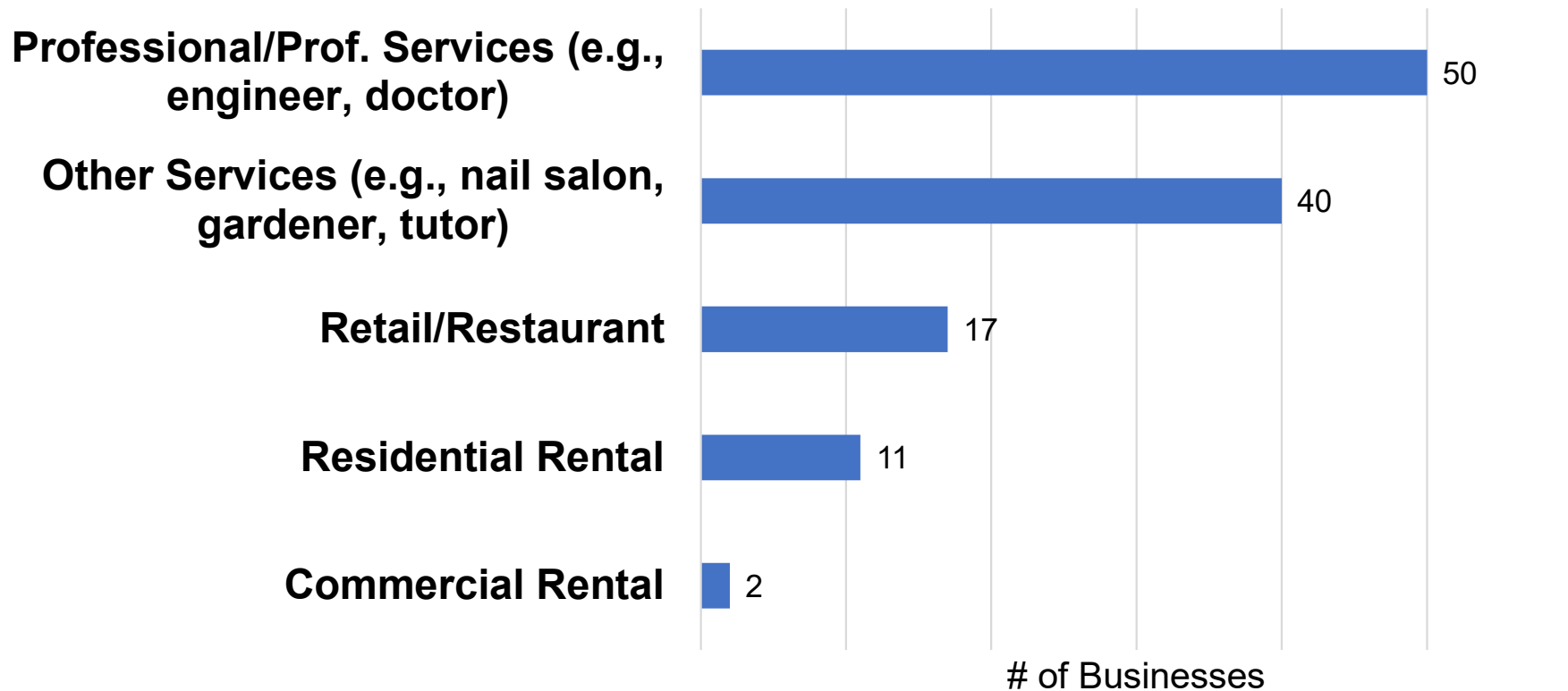
■ Belmont-Based ▨ Not Belmont-Based

59% Brick-and-Mortar

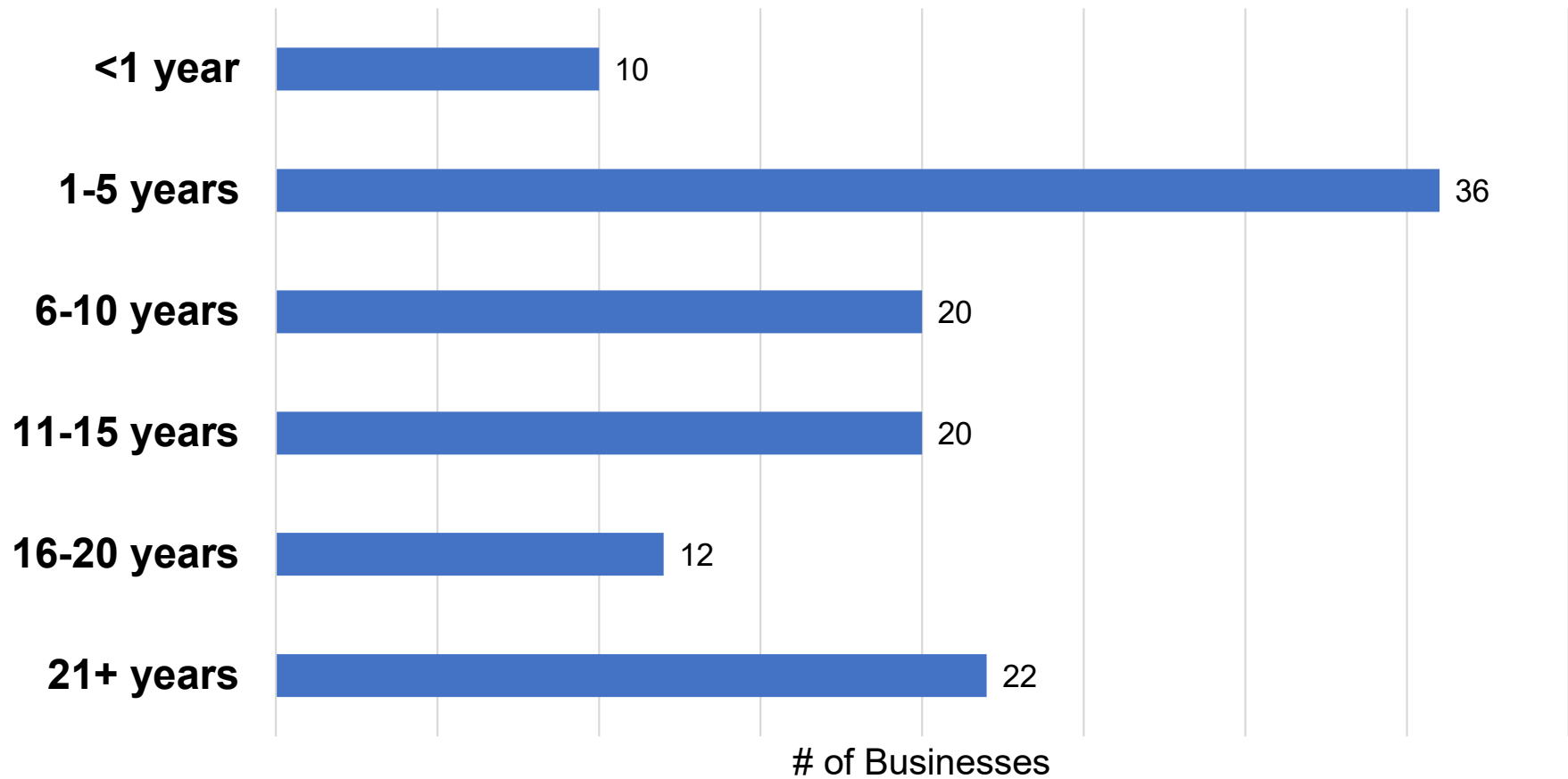


■ Brick-and-Mortar ▨ Home-Based

Survey Participants *by Business Type*



Survey Participants *by Business Longevity*



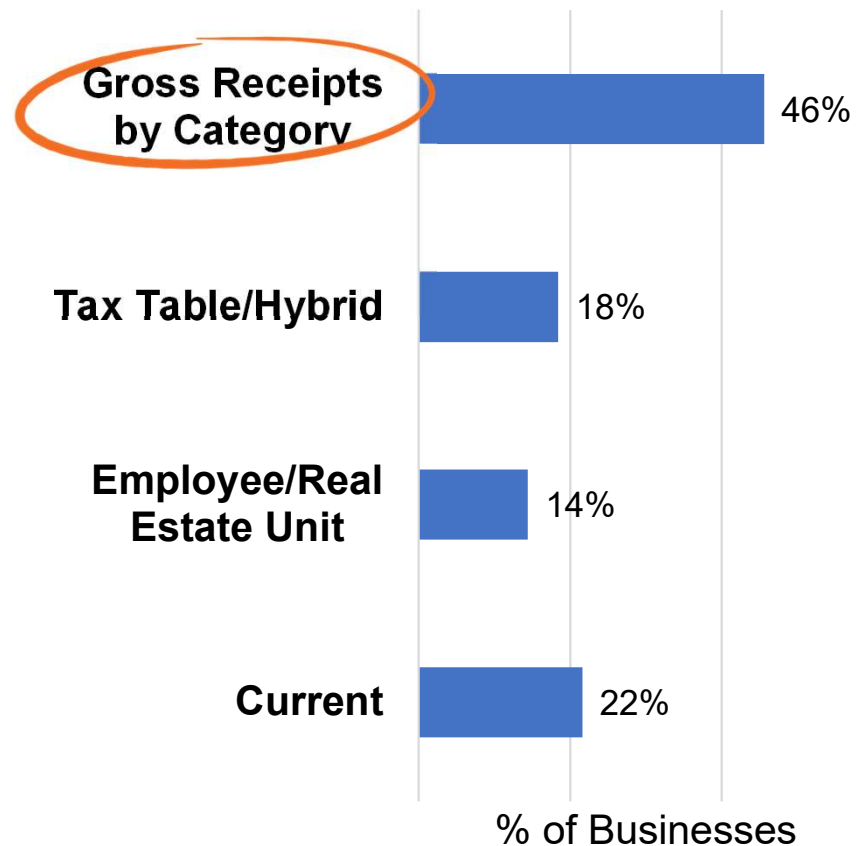
Model Ranking *by Business Category*

	Current	Employee/Real Estate Unit	Gross Receipts by Category	Tax Table/Hybrid
Retail/Restaurant	2	4	1	3
Prof./Prof. Services	4	3	1	2
Other Services	4	3	2	1
Commercial Rentals	3	3	2	1
Residential Rentals	2	4	1	3

- *“Gross Receipts by Category” was ranked 1st most frequently and is the only model ranked 1st or 2nd across all business categories*

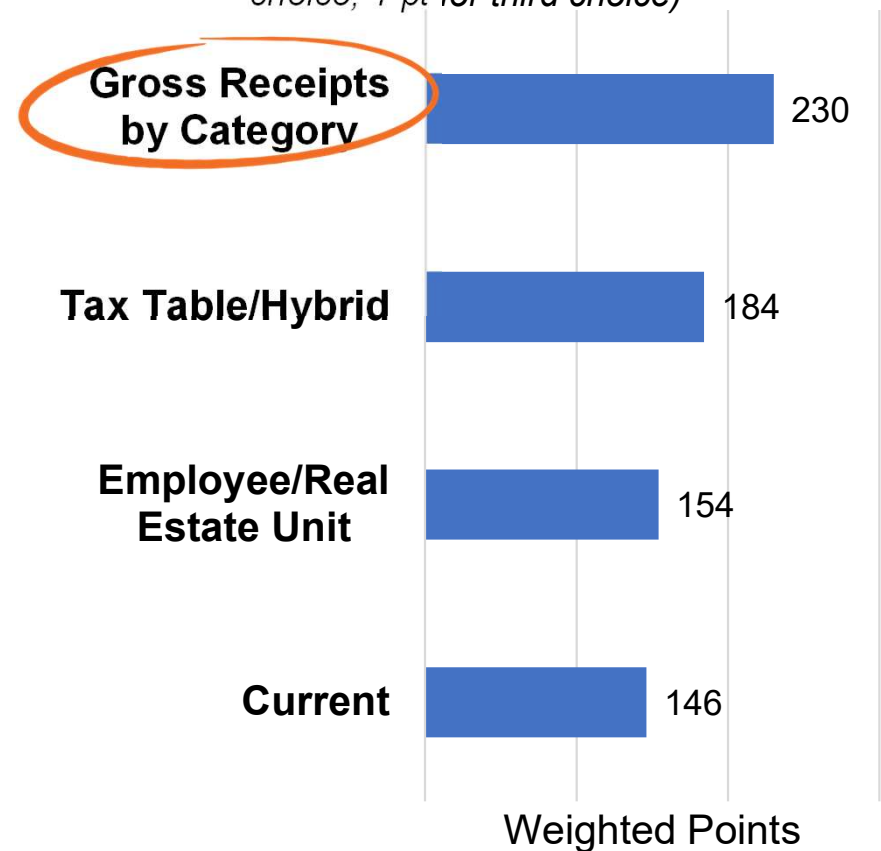
Model Preference *Overall*

Single Most Preferred



Weighted Preference

(3 pts for top choice, 2 pts for second choice, 1 pt for third choice)



Other Feedback

- ***Support for recommendation***
 - Current model is cost-prohibitive for small businesses
 - Lower rates applied to retail/restaurant are fairer given high overhead
 - Appreciate lowering the minimum tax to \$25, which is more in-line with other cities
- ***Opposition to recommendation***
 - Gross receipts models feel unfair to individuals with high revenue
 - Does not consider business impact on City services
 - Don't want increases for any business during tough economic times
- ***Distrust in City motivation*** (i.e., to make change based on “fairness” or “revenue neutrality”)
- ***Suggestions*** to implement a cap, phase rates in, or exempt low-income or home-based businesses
- ***Suggested alternatives***
 - \$100 base plus \$25 per employee, like San Mateo
 - Tiered tax table with more gradual steps (e.g., \$50k increments)
 - Combination of per-employee/unit and a tiered tax table
 - Model based on City services used (e.g., higher rates for retail due to more road usage)
 - Flat rate with lower rates for home-based