

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



www.belmont.gov

CITY COUNCIL SPECIAL MEETING AGENDA

Tuesday, May 10, 2022

6:30 PM

City Council Chambers

City Hall, One Twin Pines Lane, Belmont, California

TELECONFERENCE PARTICIPANTS

Some Members may Participate Virtually

Being held under Gov. Code 54953(e) and

Belmont City Council Resolution 2022-034

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. Social distancing must be practiced, and seating will be limited.

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. 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.

2. STUDY SESSION

A. Business License Tax Modernization & Transient Occupancy Tax Update

Recommendation: Receive presentation on the proposed rates and fiscal impacts of the Business License Tax modernization and Transient Occupancy Tax update and provide direction on next steps

Attachment(s):

[Staff Report](#)

[BLT Categories](#)

[Presentation](#)

3. ADJOURNMENT

If you need assistance to participate in this meeting, please contact the City Clerk at (650) 595-7413. The speech and hearing-impaired may call (650) 637-2999 for TDD services. 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.



STAFF REPORT

Meeting Date: May 10, 2022
Agency: City of Belmont
Staff Contact: Grace Castaneda, Finance Director, gcastaneda@belmont.gov
Jennifer Rose, Housing & Economic Development Manager, jrose@belmont.gov
Karen Clark, Administrative Assistant, kclark@belmont.gov
Agenda Title: Business License Tax Modernization & Transient Occupancy Tax Update
Agenda Action: Discussion & Direction

Recommendation

Receive presentation on the proposed rates and fiscal impacts of the Business License Tax modernization and Transient Occupancy Tax update and provide direction on next steps.

Strategic Focus Area

Fiscal and Organizational Sustainability

Background

Business License Tax (BLT)

The City of Belmont requires all employers who conduct business in Belmont to obtain a business license and pay a business tax, regardless of trade, profession, or occupation. Belmont's BLT structure was last updated in 1990 and currently generates approximately \$1 million annually, or 4% of General Fund revenue. Since 2019, the following steps have been taken towards modernizing the tax structure:

1. November 2019: City Council authorized agreements with Management Partners and HdL Companies to review and provide recommendations to modernize the tax structure.
2. May 2020: The City conducted a series of focus groups with Belmont businesses to review BLT options and gather feedback on ways the update might better serve businesses.
3. June 2020: Staff presented City Council with several options for updating the BLT and took no action at that time so as to minimize any tax structural changes during the pandemic.
4. January 2021: As part of the annual Strategic Planning Workshop, City Council reaffirmed the Strategic Objectives of "maximizing existing sources of revenue" and "Identifying new revenue sources to maintain financial stability."
5. March 2021: A survey was administered, indicating that the community was generally supportive of modernizing the tax structure to be more equitable to businesses of all sizes, and to provide the City with a locally-controlled source of General Fund revenue.
6. May 2021: Staff worked with HdL Companies and Management Partners to incorporate feedback from City Council and business focus groups, culminating in a presentation to City Council that provided modernization and equity to Belmont businesses via a gross receipts-based tax structure.



Transient Occupancy Tax (TOT)

Per City Code Chapter 23, Article IV, the City requires all hotel operators and those who rent out private residences to overnight guests (through AirBnB, VRBO, etc.) to pay a transient occupancy tax (TOT). The current TOT rate is 12%, which was approved by 75% of voters in the November 2018 general election. Prior to the onset of the COVID-19 pandemic in March 2020, TOT generated nearly \$4 million in locally-controlled General Fund revenue annually, with 99% coming from Belmont's 10 hotels and the remainder coming from private residences renting out properties.

Analysis

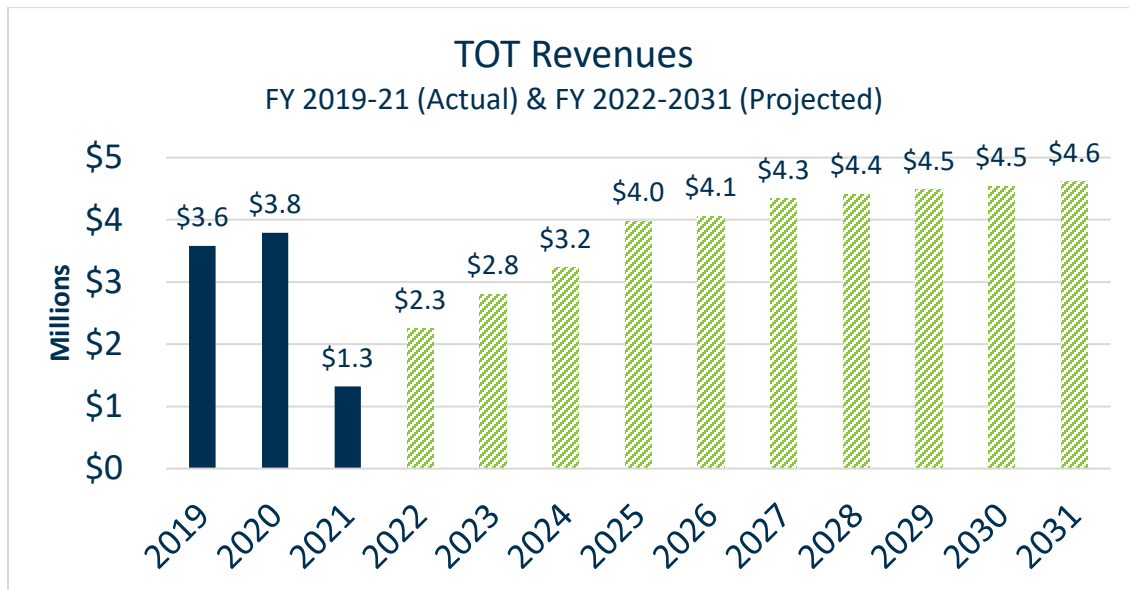
Business License Tax

The proposed BLT structure received general support from City Council in May 2021. The tax structure incorporates feedback from Council and business focus groups, including concerns regarding the inequity of the current tax structure for small businesses. In response, the proposed tax structure is based on gross estimated receipts and designates businesses into four classifications (as shown in Attachment A), with those generating less than \$10,000 in gross receipts exempted from paying the tax (though they would still be required to register with the City). HdL Companies estimates that the proposed tax structure would generate between \$1.1 and \$1.5 million annually, compared to the current \$1 million.

If City Council continues to support pursuing the proposed tax structure, staff will draft a revised BLT ordinance for Council consideration in July 2022.

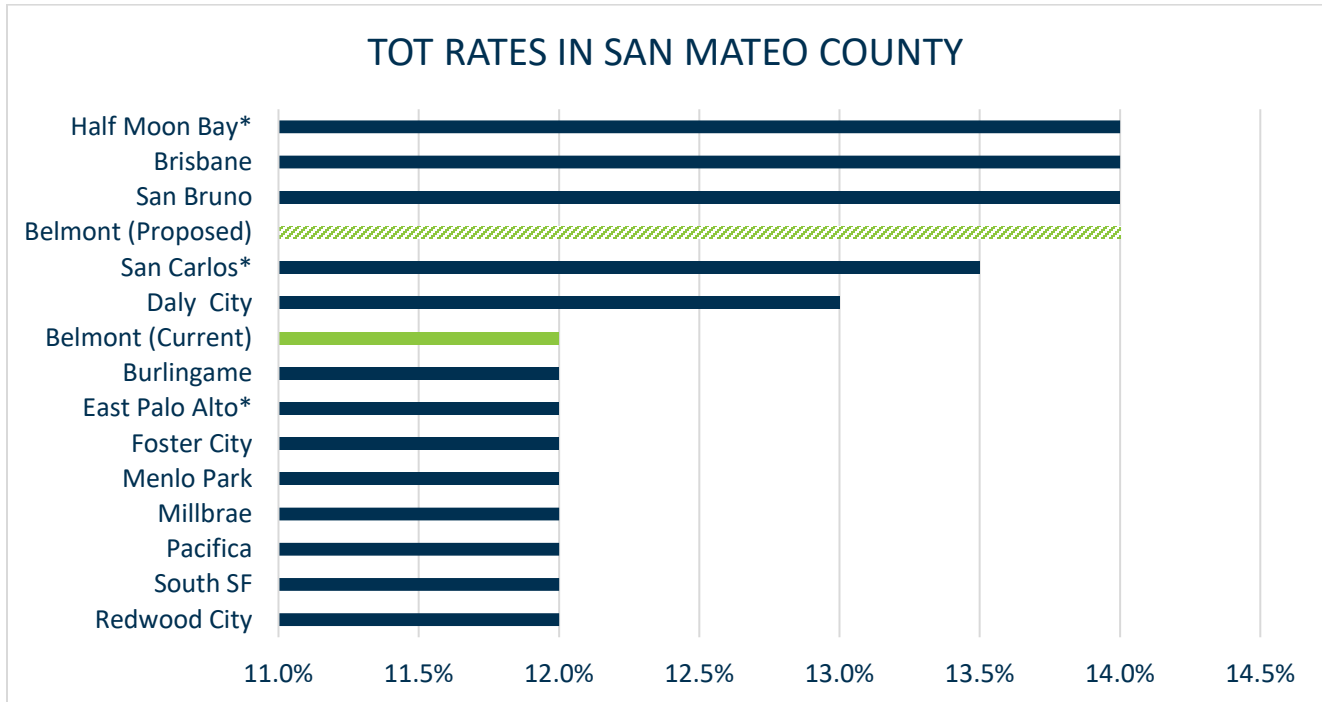
Transient Occupancy Tax

While Belmont's TOT generated nearly \$4 million in General Fund revenue annually prior to the COVID-19 pandemic, the chart below reflects the pandemic's impact on the travel and tourism industry and corresponding TOT revenue. According to this analysis, prepared by Management Partners, TOT revenue is currently anticipated to recover by fiscal year 2026.





As shown below, Belmont's current TOT rate of 12% is the lowest in the County (other than the County rate of 10%) and, if increased to 14%, would match the Cities of Brisbane, Half Moon Bay, San Bruno, and San Mateo. Half Moon Bay's rate will increase to 15% in July 2022, and San Carlos' rate will increase to 14% in January 2023. Increasing the rate to 14% would generate an anticipated \$0.7 million annually in additional General Fund revenue based on pre-pandemic TOT collection levels.



To increase the TOT rate, City Council must adopt a resolution approving the proposed ordinance, which would also direct the City Attorney to prepare an impartial analysis on the measure and would call for a designated committee of two Councilmembers to oversee the preparation of a written argument in favor of the measure, along with rebuttal arguments on any written arguments filed by measure opponents. For the ordinance to go into effect, the ballot measure must receive a simple majority vote (50% plus one).

Staff recommends inclusion of the following elements in a potential ballot measure.

- Increase the TOT rate from 12% to 14%;
- This would be a general tax, whereby all funds generated by the increase would be deposited into the City's General Fund for unrestricted general revenue purposes;
- All revenue would be kept local; and,
- TOT revenues would be paid by hotel and other lodging facility guests, *not* by Belmont residents who are not staying in such lodging facilities.

In accordance with CEQA Guidelines Sec. 15378(b)(4), submission of the tax to the voters would be categorically exempt from CEQA because it involves the creation of a government funding mechanism which does not involve commitment to any specific project.



If Council supports the proposed TOT rate increase, staff will prepare the ordinance revision, initiate outreach to local hotel representatives and the Chamber of Commerce, and obtain a quote from the Council Elections Office on adding the ballot measure to the November 8, 2022 election. Staff would also provide information to the public on the proposed change via www.belmont.gov and other means of outreach.

Alternatives

1. Provide alternative policy direction on modifications to the proposed tax rate structure
2. Take no action

Attachments

- A. Proposed Business License Tax Rates
- B. Presentation

Fiscal Impact

☐ No Fiscal Impact

☒ Funding Source Confirmed: Business license tax and transient occupancy tax provide the City with important sources of locally-controlled General Fund revenue.

Source:

Staff

Purpose:

Discretionary Action

Public Outreach:

Posting of Agenda

Proposed Business License Tax Rates

Proposed Business License Tax

Categories & Rates

Business Categories

- **Category I - \$1.50 per \$1,000 of the licensee's gross receipts**
 - General Business means the business of the sale of goods, including food, to ultimate consumers, usually in small quantities ("retail sales"); the sale of goods in quantity, as to retailers or jobbers, for resale ("wholesales"); operating an establishment where meals, prepared food, or beverages are served to customers ("restaurant"); or manufacturing, packing, or processing of any goods, wares, merchandise, or commodities at a fixed place of business within the city.
- **Category II - \$2.00 per \$1,000 of the licensee's gross receipts**
 - Contractor means a person conducting, managing, or carrying on the business of contractor, subcontractor, or builder; or engaging in the construction or repair of any buildings; or regularly employing help for building construction, sewer construction, plumbing construction, or general construction. "Contractor" does not include any business in the "Professional Services" classification, such as an architect or engineer.
 - Services means the business of offering services that are not professional services and do not fall within the definition of "contractors" including, but not limited to lawn services, gardening and landscaping services (but not landscape architects), hairstylists, beauticians or cosmetologists, aestheticians, massage therapists, arts instructors, tutoring, test preparation, sports trainers, translation and interpretation services.
 - Any business that does not fit into another category
- **Category III - \$3.00 per \$1,000 of the licensee's gross receipts**
 - Businesses and Services means the business of offering any professional, scientific, or technical service including, but not limited to legal advice and representation; accounting, bookkeeping, and payroll services; architectural, engineering, and specialized design services; computer services; consulting services; research and development services; advertising services; photographic services; veterinary services; and other professional, scientific, and technical services. Examples of persons engaged in professional services include, but are not limited to lawyers, physicians, dentists, chiropractors, physical therapists, psychiatrists, psychologists, therapists, marriage counselors, accountants, licensed financial planners, licensed investment counselors, real estate agents, real estate brokers, property management, engineers, architects, and landscape architects. The administrative offices or headquarters of a business are professional services.
 - Property Rental means the business of leasing or renting residential or commercial property, including a person engaged in the business of operating a hotel or apartment house or the leasing or renting of any residential property, dwelling unit, or room for dwelling, sleeping, or lodging and a person engaged in the business of leasing or renting any commercial property.

- **Category IV - Up to \$100.00 per \$1,000 of the licensee's gross receipts**
 - Cannabis Business means the activity of any person or collective in the city relating to cannabis, including but not limited to cultivation (including nurseries), transportation, distribution, manufacture, compounding, conversion, processing, preparation, testing, storage, packaging, delivery, and sales (including both wholesale and retail sales) of cannabis, cannabis products, or any accessories for the use of cannabis or cannabis products, whether or not carried on for gain or profit, whether for medical or recreational use, and whether or not such business is licensed by the State. A cannabis business does not include any business the only relationship of which to cannabis or cannabis products is the production or sale of cannabis accessories.

Tax Rates

- *Category I:* \$1.50 per \$1,000 of the licensee's gross receipts derived from business conducted in the city for the previous tax year, except for the first tax year of operation in the city for which the tax is instead measured by the licensee's gross receipts derived from business conducted in the city for the first tax year.
- *Category II:* \$2.00 per \$1,000 of the licensee's gross receipts derived from business conducted in the city for the previous tax year, except for the first tax year of operation in the city for which the tax is instead measured by the licensee's gross receipts derived from business conducted in the city for the first tax year.
- *Category III:* \$3.00 per \$1,000 of the licensee's gross receipts derived from business conducted in the city for the previous tax year, except for the first tax year of operation in the city for which the tax is instead measured by the licensee's gross receipts derived from business conducted in the city for the first tax year.
- *Category IV:* Up to \$100.00 per \$1,000 of the licensee's gross receipts derived from business conducted in the city for the previous tax year, except for the first tax year of operation in the city for which the tax is instead measured by the licensee's gross receipts derived from business conducted in the city for the first tax year.

Tax Exemptions

The following businesses are exempt from the tax.

- Any business exempt from the tax by the laws of the United States or the State of California.
- Any business with gross receipts for the previous tax year of less than \$10,000, except for the first tax year of operation in the city for which this exemption applies if gross receipts for the first tax year are less than \$10,000.

CITY OF BELMONT

Business License Tax Modernization & Transient Occupancy Tax Update

May 10, 2022





BACKGROUND/ANALYSIS (BLT)

BACKGROUND/ANALYSIS (TOT)

NEXT STEPS (BLT)

NEXT STEPS (TOT)

QUESTIONS & COMMENTS



BUSINESS LICENSE TAX MODERNIZATION BACKGROUND & ANALYSIS

BUSINESS LICENSE TAX MODERNIZATION BACKGROUND



November 2019: City commenced effort to modernize business license tax structure

May 2020: Focus group expressed concerns about inequities in current structure

June 2020: Council deferred action on proposed changes

May 2021: Business license tax structure revised based on Council/business input

May 2022: Seeking final Council feedback ahead of an ordinance/ballot measure

KEY PRINCIPLES

FROM BUSINESS FOCUS GROUPS



Fairness

Address inequities in existing tax structure

Adaptability

Reflect current & future business trends

Comparability

Similar structure used in surrounding peer agencies

Simplicity

Simple for businesses to understand

Streamlined

Reduce stumbling blocks to administer tax ordinance

PROPOSED RATE CATEGORIES & BUSINESS TYPES



CATEGORY	TAX RATE*	BUSINESS TYPES
Category I	\$1.50 per \$1,000 of gross receipts	General Business (e.g., retail, wholesale, restaurant; manufacturing or processing goods)
Category II	\$2.00 per \$1,000 of gross receipts	Contractor (e.g., construction or repair of buildings; employing help for building, sewer, plumbing, or general construction) Services (Non-professional services such as gardening/landscaping, hairstylists, massage therapists, tutoring) Other (Any business that does not fit into another category)
Category III	\$3.00 per \$1,000 of gross receipts	Businesses & Services (e.g., lawyers, physicians, dentists, psychologists, accountants, real estate agents, architects.) Property Rental (Leasing or renting residential or commercial property, including operating a hotel)
Category IV	Up to \$100.00 per \$1,000 of gross receipts	Cannabis Business (Cultivation, processing, storage, distribution, delivery, sales, etc. of cannabis or of accessories to use cannabis)

*Gross receipts derived from business conducted in the City the previous tax year, except for the first tax year of operation, for which the tax is measured by the licensee's gross receipts derived from business conducted in the City for the first tax year.

COMPARISON CITIES

BUSINESS LICENSE TAX



CITY	TAX TYPE	ADOPTED	MIN TAX	TOTAL LICENSES	EST. REVENUE
Belmont (Current)	Flat Rate/EE	1990	\$376	1,831	\$1.1 M
Belmont (Proposed)	Gross Receipts	1990	\$15	1,831	\$1-1.5 M*
Burlingame	Flat Rate	2001	\$100	13,138	\$.8 M
Foster City	Gross Receipts	2013	\$100	3,714	\$1.8 M
Los Gatos	Flat Rate/ Gross Receipts	1997	\$75	10,113	\$1.5 M
Menlo Park	Flat Rate	1975	\$25	4,500	\$1.6 M
Millbrae	EE/ Gross Receipts	2004	\$27	3,722	\$.4 M
Redwood City	Employee	2018	\$68	16,175	\$2.7 M
San Carlos	Employee	2003	\$148	9,881	\$1 M
San Mateo	Gross Receipt	1984	\$31	104,570	\$6 M

PROPOSED BUSINESS LICENSE TAX STRUCTURE (BROUGHT TO COUNCIL 5/25/2021)



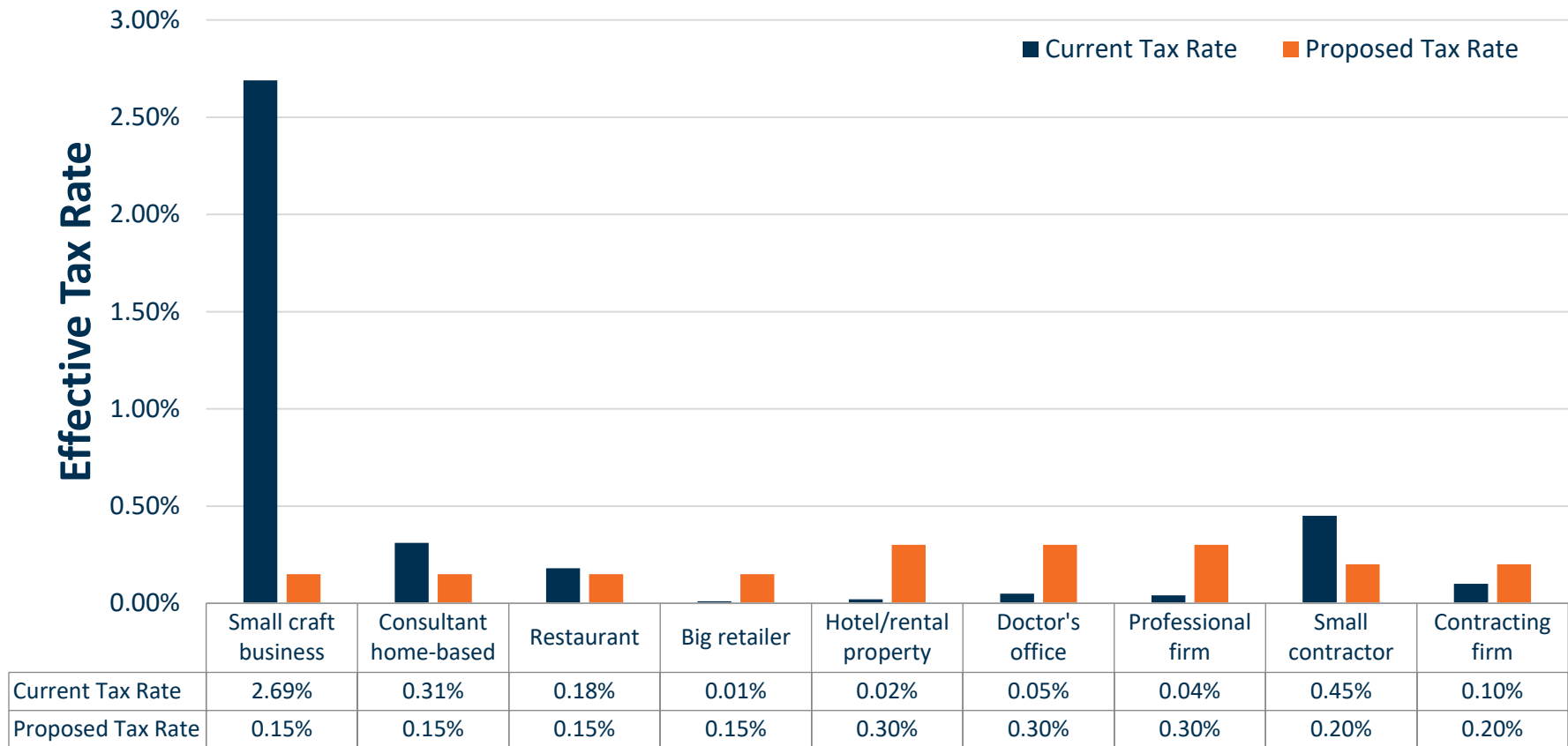
BUSINESS TYPE**	# OF BUSINESSES	PROPOSED TAX RATE (PER \$1,000) ²	ESTIMATED MIN REVENUE***
General/Retail	201	\$ 1.50 (.015%)	\$ 294,000
Rental Units	188	\$ 3.00 (.03%)	\$ 261,000
Contractors	579	\$ 2.00 (.02%)	\$ 104,000
Service/Professionals	863	\$ 3.00 (.03%)	\$ 416,000
Cannabis*	N/A	\$ 100 (10%)	N/A
Total			\$ 1,075,000

*Cannabis businesses are currently not a permitted Land Use in the City

**Businesses with gross receipts under \$10,000 annually would be exempt from the tax but still required to register with the City

***Assumed current business licenses and market conditions; a cash receipts tax model is dynamic and will fluctuate with economic trends

BUSINESS LICENSE TAX EFFECTIVE TAX RATES (CURRENT V. PROPOSED)

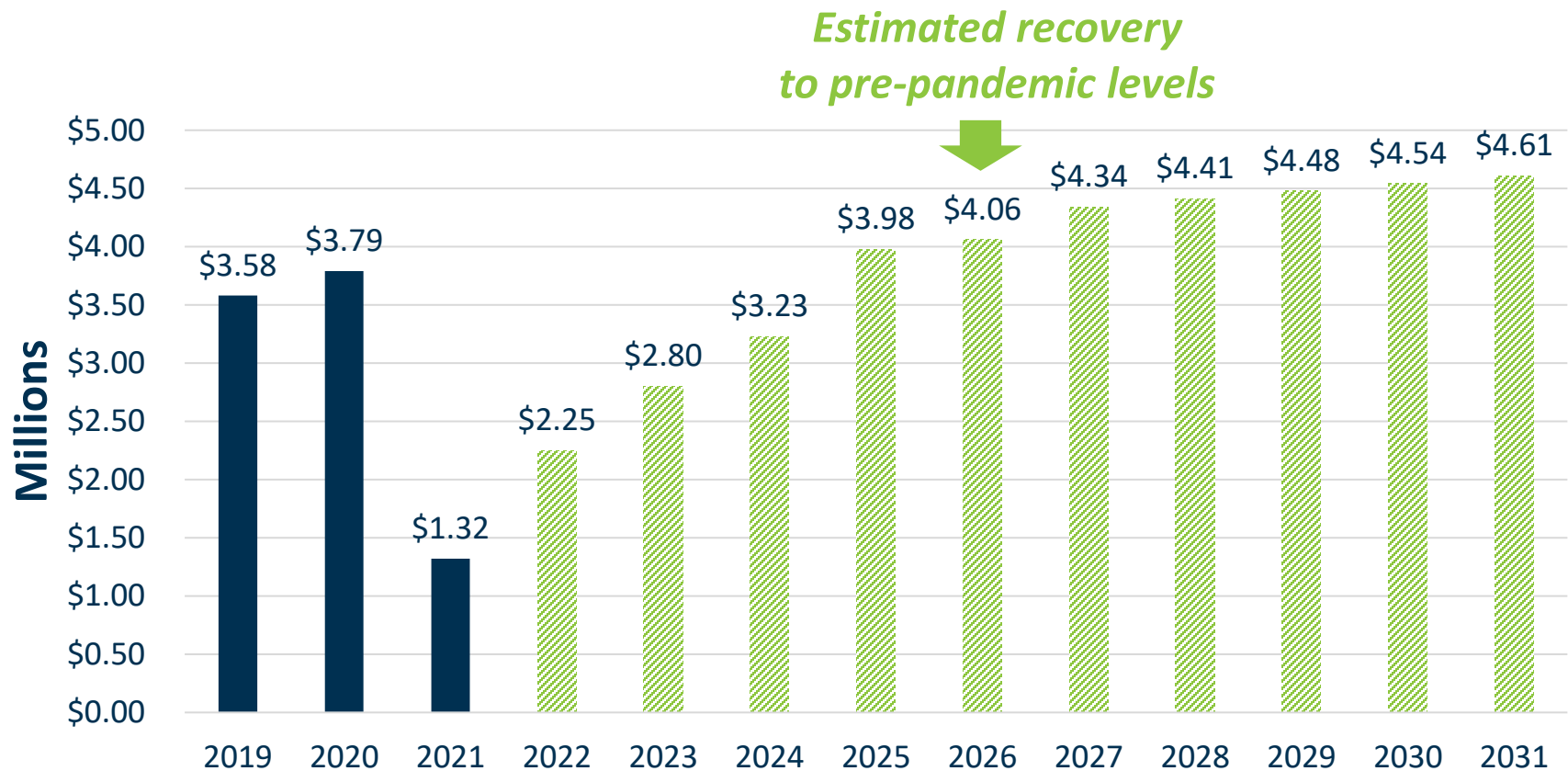




TRANSIENT OCCUPANCY TAX UPDATE BACKGROUND & ANALYSIS

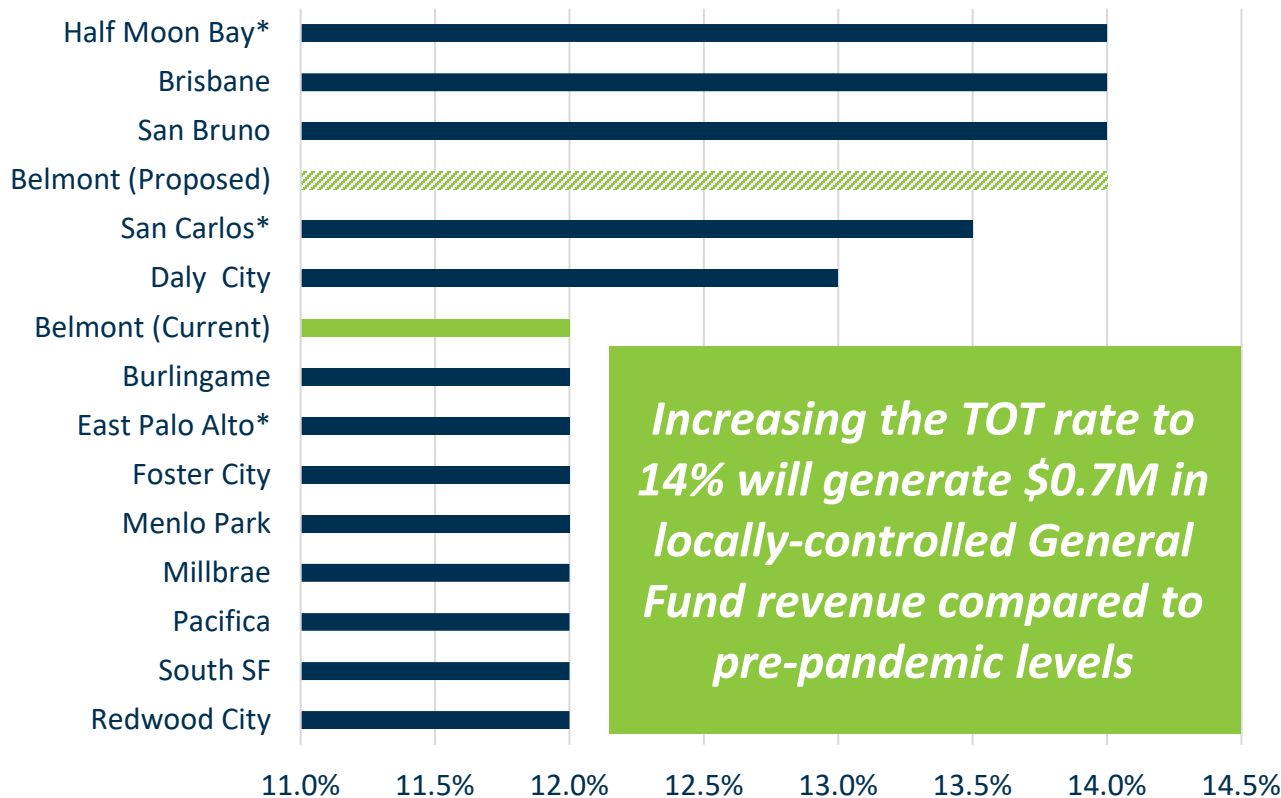
TRANSIENT OCCUPANCY TAX REVENUES

FY 2018-21 (ACTUAL) &
FY 2022-31 (PROJECTED)



TRANSIENT OCCUPANCY TAX RATES IN SAN MATEO COUNTY

(EFFECTIVE JULY 1, 2021)



***Half Moon Bay's** TOT rate will increase to 15% on 7/1/2022

****San Carlos'** TOT rate will increase to 13.5% on 1/1/2022 and to 14% on 1/1/2023

*****East Palo Alto** attempted to increase its TOT rate to 14% by 1/1/2023 at the Nov 2020 election as a special tax to fund affordable housing, but it was defeated with 65.4% in favor (requiring 2/3 voter approval)

TRANSIENT OCCUPANCY TAX BALLOT MEASURE

PROPOSED ELEMENTS



- Increase the TOT rate from **12% to 14%**;
- This would be a **locally-controlled general tax**, whereby all funds generated by the increase would be deposited into the City's General Fund for unrestricted general revenue purposes;
- All **revenue would be kept local**; and
- TOT revenues would be paid by hotel and other lodging facility guests, **not by Belmont residents** who are not typically staying in such lodging facilities.

NEXT STEPS



REVENUE MEASURES

NEXT STEPS



JULY
2022

- City Council Consideration of Draft BLT and TOT Ordinances; Call for Election on Ordinances

SUMMER
2022

- Council committee to oversee prep of written argument in favor of ballot measure, along with rebuttals to any written arguments filed

FALL
2022

- Outreach and Education to business community, hotel representatives and Chamber of Commerce

NOV 8th

- Voter Election

QUESTIONS & COMMENTS

