



**CITY OF FORT BRAGG**  
*Incorporated August 5, 1889*  
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## **MEMORANDUM**

**DATE:** May 28, 2024  
**TO:** Community Development Committee  
**FROM:** Marie Jones, Marie Jones Consulting  
**SUBJECT:** Business License Fees for Contractors

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### **BACKGROUND:**

The City of Fort Bragg currently uses three separate methods to recover business license fees from general contractors and the trades (plumbers, electricians, site work contractors, etc.).

1. **Via the Building Permit Business License Tax.** The City charges contractors a fraction (0.04 percent) of the building permit valuation to cover the cost of the business license tax for construction projects within the City. This business license tax is charged to contractors whether their business is located within the City or not.
2. **Via the Business License Tax and Fee.** Business Contractors who are exempt from paying the building permit fees (e.g. roofing projects and projects valued at less than \$1,000) are separately contacted by the Finance Department to obtain a business license and pay associated taxes and fees with “exempt” building permits.
3. **Business License Tax & Fee.** The City requires all contractors located within the City or who do business within the City to obtain a business license. The cost of the business license tax is calculated as a fraction of the gross receipts (0.1 percent of the first \$200,000 and 0.04 percent of the remaining amount). Contractors can subtract their net revenue from building permit fees they paid for projects within the City from their gross receipts and thereby the cost of the business license. It is unclear how many contractors do this. Additionally, all businesses pay a business license fee.

This current system is time-intensive for all parties and results in confusion and frustration.

## **ANALYSIS:**

In the past, the City only charged contractors for the business license tax (0.04 percent) through the building permit. More recently, the City has started to also require a business license and additional taxes and fees.

**Why the different amounts?** All other businesses (non-contractors) who do business within the City (whether located within the City or not) must obtain a business license and pay 0.1 percent of gross receipts on the first \$200,000 earned within the City and 0.04% on any gross receipts that are more than \$200,000.

City staff seeks a simpler, fairer, and less time-intensive process for obtaining business license taxes from contractors. The Community Development Committee could make one of the following recommendations to the City Council (or City staff):

1. Retain the current system.
2. Bring this item to the City Council for further discussion and consideration and provide a recommendation that:
  - a. All contractors would be required to obtain a business license and pay the business license tax of 0.1 percent on the first \$200,000 and 0.4% on any amount above \$200,000 based on gross receipts of goods/services sold within the City whether or not they are located within the City; or
  - b. All contractors would pay the current 0.04 percent of the project valuation as part of the building permit fee to cover business license fees, and would not be required to also pay an additional business license.

## **Implementation and Revenue Implications**

### **Approach 2a**

- For implementation, the Community Development Department (CDD) would require proof of a business license number prior to issuing a building permit. If a contractor, whether located within the City or the County, could not provide a valid Fort Bragg business license number, they would be asked to get a business license prior to acceptance of the building permit application.
- This approach will likely net higher overall business license revenues from contractors with smaller gross sales overall: 0.1 percent of gross revenues will always be more than 0.04 percent of building valuation.
- This approach would be relatively simple to implement.
- This is an equitable mechanism as it is how every other business type pays to operate within the City.
- Some people will try to game this system by reporting lower gross receipts. Some homeowners and contractors may try to game the system by sending homeowners in to obtain the building permit. It is unclear if the City can require a homeowner to obtain a business license for working on their own house.

### **Approach 2b**

- For implementation, CDD would charge 0.04 percent of each project valuation as part of the building permit fee. Contractors would not be required to obtain a business license for working within the City.
- This approach may result in lower revenues because building valuations (issued by

the Mendocino County Building Department) are well known for being below the actual cost of construction. Additionally, the lower rate of 0.04 percent would result in lower revenue. However, this approach would eliminate under-reporting of gross receipts or gaming the system.

- This approach would be easy to implement.

### **RECOMMENDATION:**

For fairness, MJC recommends that the City do the following:

1. Only require business license fees as a part of the building permit process. This fee should be set at 0.04 percent of the building valuation and will account for the prorated share of business license fees for both prime contractors and subcontractors.

### **ATTACHMENTS:**

None

### **NOTIFICATIONS:**

Relevant "Notify Me" lists.