



**AGENCY:** City Council  
**MEETING DATE:** Sept 9, 2024  
**DEPARTMENT:** Community Development/Finance  
**PRESENTED BY:** Marie Jones Consulting  
**EMAIL ADDRESS:** marie@mariejonesconsulting.com

## AGENDA ITEM SUMMARY

**TITLE: Receive Report and Provide Direction Regarding Preferred Method for Collecting Business License Gross Receipts Tax from Contractors.**

### **ISSUE:**

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.** 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 for "over-the-counter" 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 the building permit fees that they paid for projects within the City from their gross receipts and thereby their business tax. It is unclear how many contractors do this.

This current system is time intensive for all parties and results in confusion and frustration and inequity between Contractors and other businesses operating within City Limits. Additionally the current system is not equitable as 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.

### **ANALYSIS:**

City staff seek a simpler, less-time intensive and fairer process for obtaining business taxes from contractors. The Community Development Committee considered this item and recommended that the City not retain the current system. Instead, CDC recommends that the City Council discuss and consider this item with additional information about how each approach would impact tax revenues.

MJC worked with Finance Department staff to define alternative implementation approaches as noted below and to show how each approach might affect tax revenue collection by the City.

**Approach 1: Obtain the Business Tax only through the Business License process.**

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 is likely to net higher overall business taxes from contractors as 0.1 percent of gross revenues will always be more than 0.04 percent of building valuation.
- This approach would be simple to implement.
- This is a more equitable approach as it is how every other business pays to operate within the City.
- Some people will try to game this system by reporting lower gross receipts or 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.
- In 2023, the City collected \$14,222 in business tax from contractors through the business license process.

**Approach 2: Obtain Business Tax through the Building Permit process.**

- 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 would be easy to implement.
- This approach will result in lower taxes 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 taxes.
- In 2023, the City collected only \$2,254 in business tax from \$5,635,000 in building permit valuations.

**RECOMMENDED ACTION:**

- Receive report and provide direction regarding Business License fees for contractors.

**ALTERNATIVE ACTION(S):** None

**FISCAL IMPACT:**

- Approach 2 would result in a net loss of about \$14,000 in taxes.
- Approach 1 would increase tax collection slightly as contractors would pay 0.1% rate

on the first \$200,000 of their gross receipts like every other business in town. It would also reduce the Finance Department's labor costs spent reaching out in person to collect taxes for over-the-counter building permits such as roofing and solar.

- Many fees are also collected through the building permit process (capacity fees, connection fees, grading fees, drainage fees, General Plan maintenance fees, backflow device fees). These fees would continue to be collected through the building permit process.

**GREENHOUSE GAS EMISSIONS IMPACT:** None

**CONSISTENCY:** The Municipal Code would need to be modified to implement direction by City Council.

**IMPLEMENTATION/TIMEFRAMES:** Depends on direction provided.

**ATTACHMENTS:**

1. Municipal Code - Business License Code Alternatives