



AGENCY: City Council
MEETING DATE: July 22, 2019
DEPARTMENT: Finance
PRESENTED BY: Victor Damiani
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AGENDA ITEM SUMMARY

TITLE:

Receive Report and Provide Direction to Staff Regarding Alternative Proposals for Exemptions to Business License Taxes and Fees

ISSUE:

At the April 22, 2019 City Council meeting the Council voted to exempt from business license taxes and fees, "Any person engaged in the business of renting or letting a building structure or other property, or a portion of such building, structure or property, within the City, and such property is designated for and used exclusively for residential use which contains fewer than four dwelling units." It is important to note that while an exemption was granted for taxes and fees, the requirement to obtain a business license has not been changed.

At the meeting, the Council expressed an interest in exploring the possibility of broader exemptions. Staff was directed to analyze the regulatory impact of broader exemptions, the fiscal impact of broader exemptions, and the likelihood that broader exemptions will lead to additional housing units or lower rents in Fort Bragg.

ANALYSIS:

Regulatory Impact: The City's business license program is the vehicle by which the City enforces various aspects of the municipal code. The process of obtaining a business license requires review by multiple City departments. The Community Development Department reviews business license applications to ensure compliance with zoning regulations and other code regulations. The City Finance Department ensures payment of taxes and fees, including fees imposed by the State of California. The City Fire Department inspects each business location for compliance with fire safety regulations. The fire inspection and zoning analyses are the most critical parts of the process. The City's fire inspection requirement helps to reduce the possibility of tragedies such as the "Ghost Ship Fire." The "Ghost Ship Fire" was a fire at a building in Oakland, CA in 2016 which was operating illegally as an event and living space. A possible regulatory failure in Oakland may have contributed to the terrible deaths of 36 victims. Additionally, zoning review is required – especially for business activities in residential zones – to ensure that the proposed business is permitted. Absent this review, some businesses may rent in areas where they are not permitted, which results in code violation complaints and enforcement issues.

As noted in the opening paragraph of this staff report, the exemptions granted thus far and the exemptions contemplated tonight apply only to City imposed taxes and fees. The requirement to obtain a business license has not been, and in the case of the State mandated fees, cannot be exempted. It follows then that the exemptions considered will have no regulatory impact whatsoever. Staff is concerned however that the exemptions may lead to a false impression in the community that a business license is not required for conducting the business of renting property whether as commercial units or as dwelling units.

Fiscal Impact: The following chart provides detail on the approximate annual revenue currently generated by rental business licenses for the City:

	City Fees	City Taxes	City Total	State Fees
Commercial	1,154	2,563	3,717	48
Residential	924	841	1,765	44
Mixed	260	334	594	12
Total	\$ 2,338	\$ 3,738	\$ 6,076	\$ 104

The chart shows City fees and taxes as well as state fees categorized by commercial, residential or mixed. City fees are intended to cover the cost to the City to administer the business license program and taxes are intended primarily to raise revenue for municipal purposes. State fees are collected for the purpose of increasing disability access and compliance with construction-related accessibility requirements and to develop educational resources for businesses in order to facilitate compliance with federal and state disability laws (AB-1379).

If commercial rentals were exempted from City business license fees and taxes, the result would be an annual loss of revenue for the City's general fund of approximately \$3,717. If residential rentals were exempted from City business license fees and taxes, the result would be an annual loss of revenue for the City's general fund of approximately \$1,765. If mixed residential/commercial rentals were exempted from City business license fees and taxes, the result would be an annual loss of revenue for the City's general fund of approximately \$594. If all rentals were exempted from City business license fees and taxes, the combined result would be an annual loss of revenue for the City's general fund of approximately \$6,076. While these are not large figures, neither are they large for landlords – as will be seen in the following section.

Rental Supply and Rate Impact: At the meeting of April 22, 2019, it was suggested by some members of the public and pondered by members of the Council whether business license exemptions for rental properties would result in lower rents or increased supply of rental properties in the City. To determine the likelihood of either of these outcomes, staff looked at an example of the cost of taxes and fees. The following example applies equally to a hypothetical commercial rental at \$3,600/month or four dwelling units at \$900/month each:

	Commercial Unit	Dwelling Unit (Each)
Rent/month	\$ 3,600	\$ 900
Annual BL processing Fee (monthly basis)	9.20	2.30
BL tax (monthly basis)	3.60	0.90
Total monthly cost of taxes and fees	\$ 12.80	\$ 3.20

Based on the analysis presented in the table above, staff finds that the cost of business license fees and taxes is non-prohibitive and represents considerably less than 1% of gross receipts generated. Therefore, staff does not believe that this cost would play a significant role in a developer's decision whether or not to build housing units in Fort Bragg. Accordingly, an exemption would likely have very little impact on the supply of rental units in Fort Bragg. And lastly, due to the immaterial cost in relation to the gross receipts generated, staff does not believe an exemption would lead to either increased or decreased rents in the City. In summary, staff has concluded that the community as a whole is

not likely to enjoy any benefit from the proposed exemptions and rather the benefit would accrue only to the individual business owners to whom the exemptions would apply. The described inequity is amplified when considering that a significant number of rental properties in the City are owned by a few individuals or businesses.

If Council does opt to move forward with any of the exemption proposals presented tonight, staff recommends granting the exemption only to landlords who document that they have not raised rents over their prior year rates. In this way the Council can have some level of assurance that the exemption has in fact resulted in the desired outcome for the community.

RECOMMENDED ACTION:

Staff does not recommend any of the proposals for adoption and recommends that no further action be taken.

ALTERNATIVE ACTION(S):

- Direct staff to bring forward one or more of the proposed alternative ordinances.
- Direct staff to bring forward one or more of the proposed alternative ordinances with the added stipulation that the exemption only be granted to landlords who ask for the exemption and who demonstrate that they have not increased rents on a year over year basis.

FISCAL IMPACT:

Presented in the analysis section.

GREENHOUSE GAS EMISSIONS IMPACT:

N/A

CONSISTENCY:

The proposed change to the City of Fort Bragg municipal code was intended to be consistent with the City's General Plan Housing Element goal of providing an adequate supply of safe, decent housing for all residents of Fort Bragg. Staff believes the proposed changes fall short of the goal.

IMPLEMENTATION/TIMEFRAMES:

If the Ordinance is introduced on September 9, 2019 and adopted on September 23, 2019, it would become effective on October 23, 2019.

ATTACHMENTS:

1. Ordinance Alternative #1
2. Ordinance Alternative #2
3. Ordinance Alternative #3

NOTIFICATION:

Fort Bragg Downtown Businesses Notify Me List