



NOTICE AND AGENDA
CITY OF UNION CITY

CITY COUNCIL

SPECIAL MEETING

Thursday, March 28, 2024
7:00 PM

City Council Chambers | 34009 Alvarado-Niles Rd, Union City, CA 94587

- 1. CALL TO ORDER**
- 2. ROLL CALL**
- 3. ORAL COMMUNICATIONS - Comments limited to items on the Special Meeting Agenda**
- 4. CITY MANAGER REPORTS**
 - 4.a. Accept The Business Tax Analysis Report Prepared By HdL Companies And Provide Broad-Based Policy Direction On Next Steps To Inform The Placement Of Potential Revenue Measures On The November 2024 Ballot**
 - 4.b. Adopt A Resolution Approving The Formation Of, And The Mayor's Appointment Of Two Councilmembers To, An Ad Hoc Subcommittee To Evaluate And Provide Recommendations On The Second Phase Community Survey To Inform The Placement Of Potential Revenue Measures On The November 2024 Ballot**
- 5. ADJOURNMENT**

/s/ Carol Dutra-Vernaci

Carol Dutra Vernaci
Mayor



Agenda Item

DATE: 3/28/2024

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOAN MALLOY, CITY MANAGER

SUBJECT: ACCEPT THE BUSINESS TAX ANALYSIS REPORT PREPARED BY HDL COMPANIES AND PROVIDE BROAD-BASED POLICY DIRECTION ON NEXT STEPS TO INFORM THE PLACEMENT OF POTENTIAL REVENUE MEASURES ON THE NOVEMBER 2024 BALLOT

Staff recommends that the City Council accept the Business Tax Analysis Report prepared by HdL Companies and provide further board-based direction regarding a potential Business License Tax (BLT) amendment as well as areas where the City Council would like further analysis and fact gathering for a potential future decision.

Specifically, at this early stage, staff is seeking direction from the City Council regarding a potential revision to the proposed Business License Tax that would apply to all business as to the following areas:

- Shift to a gross receipts model across all business categories;
- Simplify and consolidate business license categories from 65 to nine;
- Adopt a differential rate model;
- Retain a minimum tax with CPI adjustments; and
- Implement the changes at one time instead of phased changes to the tax over time.

Staff is also seeking direction to proceed with gathering more information through a second phase of a community survey, including which potential revenue measures to incorporate. Aside from possibly updating the BLT, the City Council is also considering an increase and extension to the Utility Users' Tax (UUT) and/or a renewal of the Public Safety Parcel Tax (PSPT). Staff also seeks input on any additional information that the City Council seeks to better inform the placement of a potential revenue measure or measures on the November 2024 ballot.

No final decision on the revenue measures being considered is needed at this time.

STRATEGIC PLAN ALIGNMENT

This item is in alignment with **Goal A. Financial Stability and Sustainability** of the City Council Strategic Plan. Under Goal A, it is specifically related to the following strategies:

- **Strategy 1:** Develop a comprehensive fiscal sustainability model to address the General Fund’s long-term structural deficit.
- **Strategy 8:** Determine the feasibility of a revenue ballot measure for November 2024 and/or November 2026 to address critical facilities and infrastructure needs.
- **Strategy 9:** Pursue the placement of a voter-approved revenue measure on a ballot to address the funding gap between revenues and expenditures for fundamental public safety and other city services.
- **Strategy 10:** Study the benefits and opportunity to update the City’s business license tax for voter consideration.

BACKGROUND

Union City’s Financial Forecast

Challenges such as high inflation, supply-chain disruptions, labor shortages, and more have compounded revenue losses post-pandemic for local governments. Many of Union City’s retail sales tax generators were closed, hotels were empty, and the use of public transit dwindled – causing adverse fiscal impacts and bringing about significant uncertainty for City revenues. Today, the City continues to grapple with slow revenue recovery coupled with the escalating costs of labor, contracts, supplies, equipment, and growing retirement obligations.

While the City currently maintains a healthy General Fund reserve, this is primarily due to salary savings from vacant positions, deferred maintenance/capital projects, and assistance through an influx of American Rescue Plan Act (ARPA) funds. In reviewing the City’s long-range financial forecast, the General Fund is projected to fall to the minimum reserve fund balance of twenty percent of its annual operating expenditures by 2029. This anticipated operating budget deficit is approximately \$2.8 million per year.

The City Council has expressed a desire to identify new, ongoing, and stable revenue sources in order to address the operating budget deficit. This will give the City long-term stability so that it is not constantly facing a “fiscal cliff.” Prudently, the City Council has expressed its commitment to protect reserve levels and its interest in exploring voter approved revenue measures to address future gaps in funding City services and the ability to maintain existing service levels. Possible options include an increase and extension to the Utility Users’ Tax (UUT), a renewal of the Public Safety Parcel Tax (PSPT), and an update to the Business License Tax (BLT).

This report is focused primarily on proposed amendments to the City’s BLT and to provide additional information regarding a BLT measure as one potential solution.

Union City’s Current Business License Tax Structure

The City Council established the City’s BLT by ordinance in 1969 and was subsequently amended a number of times. The City’s BLT is codified in Union City Municipal Code Chapter 5.08. The tax structure in which the City follows is a hybrid model that utilizes gross receipt, gross payroll, units, and fixed rate based on the type of business being conducted in the City. This structure can complicate reporting and tax processing, and it makes grouping businesses difficult, as there are 65 different business types identified in the City’s BLT.

As such, updating the City’s BLT would streamline administration and help modernize the existing tax structure. This in turn would also raise revenues to support essential services for the community. BLT

revenues, as a general tax, could be used for any governmental purpose and would be vital in funding public safety and health, addressing critical infrastructure maintenance, and improving amenities such as parks and outdoor spaces. These core services benefit all community members, from residents to the City's corporate citizens and its employees alike.

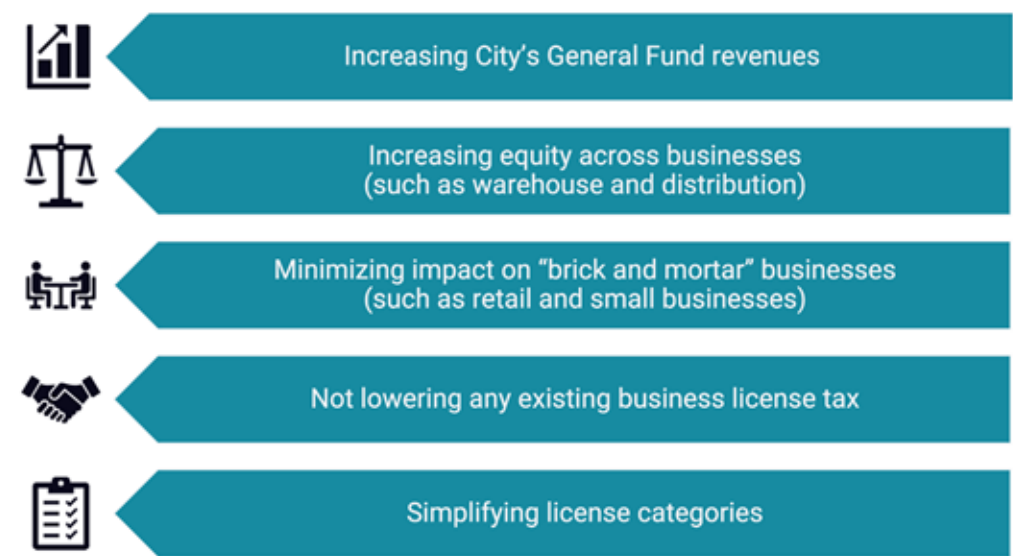
BLT Study – Key Goals

To aid in this effort, the City engaged HdL Companies (“HdL”) to perform a study of the City’s business license tax structure. HdL performed an initial study in 2021 in response to the City’s desire to explore strategies that supported the transformation of stand-alone warehouse uses to more productive uses as identified in the City Council’s Strategic Plan and City’s Economic Development Strategic Plan. HdL evaluated the City’s entire BLT structure and provided several alternatives for the City Council for further analysis, fact gathering, and consideration. At the October 26, 2021 City Council meeting, the City Council accepted HdL’s analysis and directed staff to pursue a BLT model that would apply across the board to all businesses based on gross receipts that could be considered by the voters in the November 2022 election.

After further discussion in February 2022, the City Council determined that for the November 2022 election, efforts should be focused on the extension of the ½ cent sales tax measure and that consideration to amend the BLT should be postponed until additional analysis and fact gathering could be completed.

In the latter half of 2023, the City reengaged HdL to refine the BLT analysis and focus on a gross receipts model with the primary goals of increasing revenue and simplifying the City’s rate schedule. The analysis would help the City Council determine if the BLT was being fairly assessed, as well as validate financial projections of the previous 2021 study.

In summary, the key study goals were:



DISCUSSION

BLT Study – Key Findings and Conclusions

Keeping the City’s study goals in mind, HdL closely reviewed the City’s current tax structure, comparing it to a number of jurisdictions including Union City’s neighboring cities, and explored different options to generate additional revenues while minimizing the impact on businesses. The full report of HdL’s Business Tax Analysis

is attached to this report as Attachment 1. The key findings and conclusions of the study indicate that:

1. The City's business tax revenue is mostly stable and there are no signs of large growth patterns.
2. The City currently relies on three key business types for a little more than half of its business license tax revenue. Options may spread the results more fully across more business types.
3. The City's current tax revenues collected are near the bottom of comparative cities.
4. The City can simplify administration by consolidating and reducing the number categories.
5. The City can increase its tax revenues with mostly moderate increases and use a gross-receipts measure for most categories.

A BLT based on gross receipts is one of the most common methods of business taxation in California. As a widely used methodology, there are many established guidelines for what constitutes gross receipts and how to administer the tax. HdL's Business Tax Analysis states: "Benefits of gross-receipts-based taxes are the potential equity of their effective tax rate, ease of calculation, and potential for capturing revenue from economic growth. The drawback is that it exposes City revenues to fluctuations in gross receipts in the economy and may concentrate revenue in the highest-grossing businesses."

Transitioning all categories to a BLT based on gross receipts would be one critical step to modernizing the City's BLT. The next would be to consolidate and reduce the number of categories from 65 to nine. With these foundational changes, two models were considered. Staff is not seeking City Council direction to pursue either model, or an alternate model, at this time.

In Model 1, each category has its own rate. Whereas in Model 2, all categories would have a single rate (with the exception of Mobile Home Parks and Exempt businesses). This proposed tax structure is outlined in the following table:

Categories	Minimum Rate	Model 1	Model 2
General/Retail	\$147	\$0.43 / Thousand X Gross	\$0.43 / Thousand X Gross
Professional	\$293	\$2.50 / Thousand X Gross	\$0.43 / Thousand X Gross
Contractors	\$167	\$1.50 / Thousand X Gross	\$0.43 / Thousand X Gross
Service	\$293	\$2 / Thousand X Gross	\$0.43 / Thousand X Gross
Rental	\$171	\$1.75 / Thousand X Gross	\$0.43 / Thousand X Gross
Exempt	Exempt	Exempt	Exempt
Industrial – Manufacturing/Wholesaling	\$147	\$0.43 / Thousand X Gross	\$0.43 / Thousand X Gross
Industrial – Warehousing	\$147	\$0.43 / Thousand X Gross	\$0.43 / Thousand X Gross
Mobile Home Parks	\$646	\$35 / Space	\$35 / Space

Under Model 1, with a tax rate formula that fluctuates by business categories, the total revenues raised would be higher. Whereas, Model 2 takes a more conservative approach by applying the existing minimum gross receipts tax rate, but still achieves higher revenues for the City. Estimated revenues from each category and the total for each model is outlined in the following table:

		Est. Annual Gross Receipts Tax	Est. Annual Gross Receipts Tax
Number of	Est. Gross		

Business Type	Businesses	Receipts	Current Taxes	Model 1	Model 2
General/Retail	655	\$919,940,000.00	\$451,823.71	\$485,448.33	\$485,448.33
Professional	1,011	\$431,293,000.00	\$263,881.16	\$1,311,330.50	\$470,821.49
Contractors	1,067	\$374,099,000.00	\$231,596.59	\$699,325.00	\$327,581.32
Service	60	\$144,347,000.00	\$25,436.54	\$303,348.00	\$79,020.12
Rental	2,210	\$300,758,000.00	\$503,057.30	\$808,436.25	\$483,696.45
Exempt	95	\$59,488,000.00	\$2,375.00	\$0	\$0
Industrial – Manufacturing/ Wholesaling	209	\$2,492,946,000.00	\$238,294.99	\$1,100,470.55	\$1,100,470.55
Industrial – Warehousing	95	\$441,971,000.00	\$43,407.15	\$202,991.28	\$202,991.28
Mobile Home Parks	2	N/A	\$28,942.00	\$32,652.00	\$32,652.00
	5,404	\$5,164,842,000.00	\$1,788,814.44	\$4,944,001.91	\$3,182,681.54

Ultimately though, it is important to note that the proposed tax rates under each model are presented simply for illustrative purposes and may be adjusted to better meet the City’s goals while balancing the tax burden and implications across business sectors.

Economic Development Advisory Team Feedback

On March 6, 2024, a draft report of HdL’s Business Tax Analysis was shared with the Economic Development Advisory Team (EDAT). City staff, along with its consultant, reviewed the study with EDAT members and received their feedback on further exploration regarding the findings. EDAT comments were in essence these three points:

- EDAT expressed interest in further fact gathering related to Model 1, which has differential rates across categories, rather than Model 2 which applies a single rate across categories.
- EDAT sought further information regarding the proposed tax rate on the Professional category and the impacts of such an increase on these business types.
- EDAT proposed an across the board phasing in the increase to the proposed tax rates to reduce the burden on businesses and to allow businesses adequate time to build into their budgets and financial forecasts.

Overall Staff Recommendations/Policy Considerations

Given the results of the Business Tax Analysis and the feedback conveyed by EDAT, staff recommends the following for the City Council to consider:



1. A **gross receipts structure** across all business categories allows the City to charge different rates based on business activity and would reduce complexity, improve equitability, and increase business tax revenues with a potential for future growth.
2. **Simplifying and consolidating business categories** from 65 to nine broad categories would ease administration of the BLT.
3. A **differential rate model** allows a more measured approach to having businesses pay their fair share while also ensuring not any one business sector is particularly burdened. The BLT rate could be lower on a business category that contributes to the City's revenue stream, such as retail sales, while a higher BLT rate could be assessed on a business category that does not contribute as significantly to the City's tax base or may have a higher cost on infrastructure, such as stand-alone warehousing.

Staff is not requesting that the City Council identify specific tax rates by category at this time; however, the City Council could seek further broad-based information regarding particular categories and ultimately will be asked to consider how a business sector may be contributing to the community through sales tax or jobs when setting rates.

4. The **minimum tax rate** should be continued to safeguard the taxes currently being collected and ensure that existing business license taxes aren't inadvertently lowered as a result of this process. **Allowing for CPI adjustments** to the minimum rates as recommended by the study would also ensure the City's BLT is kept current and competitive.
5. **Implement the new BLT rates at one-time.** Staff acknowledges EDAT's recommendation to phase in any BLT rate changes to allow businesses time to adjust. However, staff recommends a swift approach to reduce confusion to businesses that may occur over a several-year phasing process and be more stable for the City.

City Council Next Steps and Key Milestones

The BLT is a general tax that requires a 2/3rd majority vote of the City Council (4 out of 5 Councilmembers) to be placed on the ballot and a simple majority vote (50% + 1) of the voters to pass. By law, a general tax may only be placed on the ballot when there is a City Council election, except in cases of emergency declared by a unanimous vote of the City Council. For Union City, the next opportunity to place a general tax on the ballot is November 2024.

Alameda County's deadline for submitting a ballot measure is August 9, 2024. The following is a tentative calendar outlining steps that would need to be taken for the inclusion of a ballot measure on the November 5, 2024 General Election:

DATE	ACTION	STAFF	CITY COUNCIL
March 28, 2024	Provide Direction on Second Phase of Community Survey	<input type="checkbox"/>	<input checked="" type="checkbox"/>
April/May 2024	Conduct Second Phase of Community Survey	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Conduct Informational Outreach to External Stakeholders	<input checked="" type="checkbox"/>	<input type="checkbox"/>
May 14 or 28, 2024	Provide Policy Direction on Next Steps (If Any)	<input type="checkbox"/>	<input checked="" type="checkbox"/>
May 2024	Continue Informational Outreach to External Stakeholders	<input checked="" type="checkbox"/>	<input type="checkbox"/>
June 11 or 25, 2024	Present Community Survey Results	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Provide Final Policy Direction on Next Steps	<input type="checkbox"/>	<input checked="" type="checkbox"/>
June 2024	Develop Resolutions/Ordinances on Proposed Revenue Measure(s)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Continue Informational Outreach to External Stakeholders	<input checked="" type="checkbox"/>	<input type="checkbox"/>
July 9 or 23, 2024	Adopt Resolution Placing Revenue Measure(s) on November Ballot	<input type="checkbox"/>	<input checked="" type="checkbox"/>
August 9, 2024	Registrar of Voters Submission Deadline to Qualify for November Ballot	<input checked="" type="checkbox"/>	<input type="checkbox"/>
November 5, 2024	General Election	N/A	N/A
December 2024	Certification of Election Results	N/A	N/A
January 1, 2025 (TBD)	Effective Date (If Passed)	N/A	N/A

Conclusion

At this early stage, staff is requesting that the City Council's direct staff to pursue a BLT update that includes the following across the board revisions:

- Shift to a gross receipts model across all business categories;
- Simplify and consolidate business license categories from 65 to nine;
- Adopt a differential rate model to be determined;
- Retain a minimum tax with CPI adjustments; and
- Implement the changes at one time; do not phase in changes to the tax.

The City Council may also indicate areas where it may seek more information to inform future potential decisions.

Staff is also seeking the City Council's direction on whether to proceed with a community survey for the BLT. From previous discussions, the City Council had expressed interest in conducting a survey of the UUT and PSPT. Adding the BLT would test three revenue measures at one time. While it would be possible to survey through a split sample design, City Council may also consider narrowing down the options being considered

given it would not be advised nor likely that the City will place more than two revenue measures on one ballot.

For reference, the City's existing UUT will expire in December 2028. The option of increasing the UUT, as a general tax would also only require a simple majority vote (50% + 1) of the voters to pass. Should the City Council desire to continue exploring an increase to the UUT, it would require an increase from the current rate of 5.0% to 7.5% to close the operating budget deficit. The 2.5% increase over the current rate would have an additional annual revenue stream of approximately \$3.2 million per year. Seeking an extension on the UUT would also be recommended at the same time to avoid a possible fiscal cliff in 2028.

Moreover, the first community survey that was conducted between September 6-18, 2023 assessed voter attitudes and potential support specifically for a PSPT measure. The survey concluded that a PSPT measure in March 2024 did not likely have the community support to succeed, in part because the high voter threshold of 66.67% that would be necessary for a parcel tax to pass. A PSPT measure in November 2024 did not fare much more favorably either. As noted, should the City Council desire to continue exploring a renewal of the PSPT, TeamCivX suggests that a tax rate of \$0.05 per square foot of limited duration be tested. This rate would have an annual revenue stream of approximately \$2.6 million per year and average annual cost of \$90 per household unit, which would not close the operating budget deficit.

If the City Council desires to move forward, staff will work with TeamCivX and Godbe Research to proceed with the second phase of a community survey. A separate item on this agenda seeks the formation of an Ad Hoc Subcommittee to support staff and the consultants in the preparation of the community survey and provide a recommendation to the City Council upon receipt of the survey results. This second phase of the survey will be shaped by feedback received from City Council to date, will demonstrate how voter attitudes may have shifted over the last six months, and help narrow the revenue measure options that the City Council may consider.

These revenue measure options are further detailed in the February 27, 2024 staff report ([linked here](#)).

Lastly, if there is any additional information City Council would like to obtain to better inform the eventual decision on placement of potential revenue measures on the November 2024 ballot, that feedback would help refine next steps.

FISCAL IMPACT

There is no fiscal impact of City Council taking the recommended action.

There is also no immediate impact associated with consideration of the potential revenue measures. Fiscal impact on the General Fund would be dependent on the direction received by the City Council and the outcome of any potential revenue measure.

The City's long range financial forecast indicates a shortfall averaging \$2.8 million from FY 2025 to FY 2035. As previously stated, the General Fund is projected to fall below the minimum reserve fund balance goal of twenty percent of its annual operating expenditures by 2029 and would be depleted by 2035 if no corrective action is taken. The financial forecast assumes no expansion of staff or City services.

RECOMMENDATION

Staff recommends that the City Council accept the Business Tax Analysis Report prepared by HdL Companies and provide further broad-based direction regarding a potential Business License Tax (BLT) amendment as well as areas where the City Council would like further analysis and fact gathering for a potential

future decision.

Specifically, at this early stage, staff is seeking direction from the City Council regarding a potential revision to the proposed Business License Tax that would apply to all business as to the following areas:

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Staff is also seeking direction to proceed with gathering more information through a second phase of a community survey, including which potential revenue measures to incorporate. Aside from possibly updating the BLT, the City Council is also considering an increase and extension to the Utility Users' Tax (UUT) and/or a renewal of the Public Safety Parcel Tax (PSPT). Staff also seeks input on any additional information that the City Council seeks to better inform the placement of a potential revenue measure or measures on the November 2024 ballot.

No final decision on the revenue measures being considered is needed at this time.

Prepared by:

Jennifer Phan, Deputy City Manager

Submitted by:

Jennifer Phan, Deputy City Manager

ATTACHMENTS:

Description	Type
 Attachment 1 - HdL Business Tax Analysis Report	Attachment
 PowerPoint Presentation	Attachment

City of Union City



Business Tax Analysis

March 20, 2024

HdL[®] Companies

SUBMITTED BY

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Executive Summary

Background

The City of Union City requires entities or persons that are carrying on business in the City to obtain a business license and to pay what is referred to as a business license tax.¹ As noted in the City's code, the purpose of this tax is twofold: (1) for regulatory purposes, where permissible by law; and (2) for revenue purposes. In this study, we review the revenue-generating aspect of the business license tax.

The City currently faces a general fund shortfall. Without additional funds, the City services may be underfunded and begin to degrade.

The scope of the tax study

HdL Companies ("we" or "HdL") was asked to review the City's current tax structure, compare that structure to a select group of cities, and, working with staff, to explore options for generating additional revenue from the business license tax while minimizing the impact on business.

Key findings and conclusions

1. The City's business tax revenue is mostly stable. There are no signs of large growth patterns. Given inflation and increased costs of services for cities in California, a stable revenue source, while reliable, is likely to lag the increasing costs the City faces.
2. The City currently relies on three key business types for a little more than half of its business license tax revenue. They are retail businesses, residential rentals, and professional services. The options discussed in section two of this report spread the results more fully across more business types.
3. The City's current tax results are near the bottom of the comparison set. Model 1 would shift the City to near the top of that set. Model 2 would improve revenue, while keeping the City closer to the bottom half of the comparison set.
4. The City can simplify administration by consolidating classifications. Both proposed models would reduce the number of classifications.
5. The City can increase its tax revenue with mostly moderate increases and use a gross-receipts measure for most classifications.

Five Key Components of A Business License Tax

1. **The taxable activity.** In the City of Union City, the taxable activity is "...transact[ing] and carry[ing] on any business, trade, profession, calling or occupation in the City..."
2. **The measure of the taxable activity.** Once we know what is taxed, we must measure how much of that taxable activity is occurring. Some cities may measure the number of employees. A more modern trend is to measure the gross receipts.
3. **The rate.** Given a certain amount of taxable activity, a rate is applied to determine how much tax is owed.
4. **The classification.** Cities often group certain kinds of businesses together and apply different tax rates to each group. For example, a city might want to charge restaurants a lower rate than commercial rentals.
5. **The results.** Since we are concerned with the revenue-generating aspect of the business license, when we refer to the "results" of the tax, we mean the revenue generated for the City.

¹ City of Union City Municipal Code (UCMC) §5.08.030. The tax is also referred to as a "fee" in some parts of the code. For example, in UCMC §5.20.010. But for simplicity and consistency, we will refer to the amount owed as a "tax".

SECTION 1 – Current Structure Analysis and Comparisons

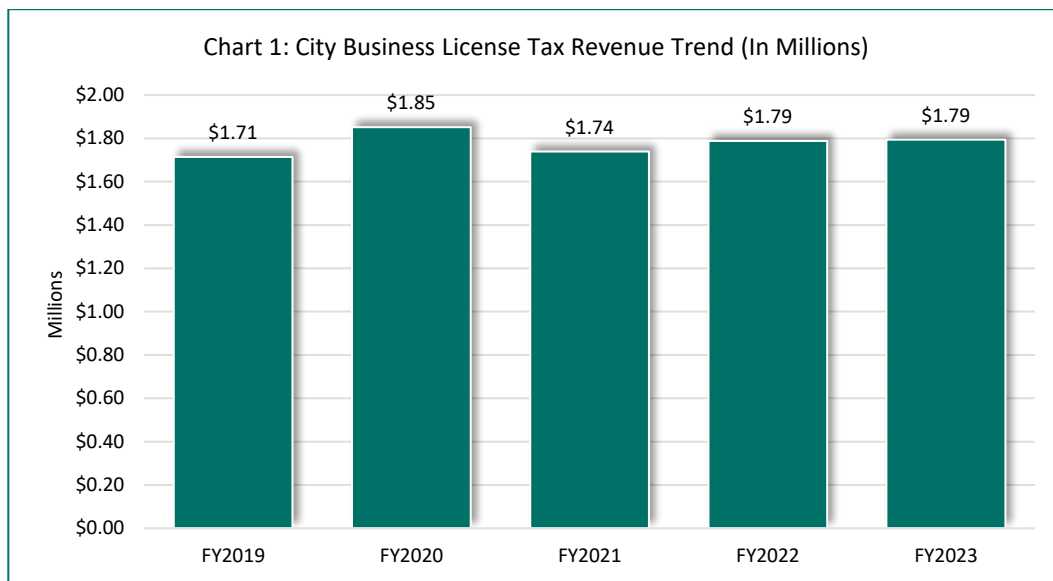
The City's business tax revenue appears stable.

Union City has approximately 5,404 businesses contributing to the business license tax. Since fiscal year (FY) 2019, business license tax revenue has averaged approximately \$1.78 million. This study is based on \$1.79 million in business license tax revenue from business licenses issued between July 1, 2022, and June 30, 2023.

It is important to keep in mind this number of \$1.79 million. Since one of the aims of the study is to explore what additional revenue might be generated, this figure of \$1.79 million will form the baseline against which other revenue options will be measured.

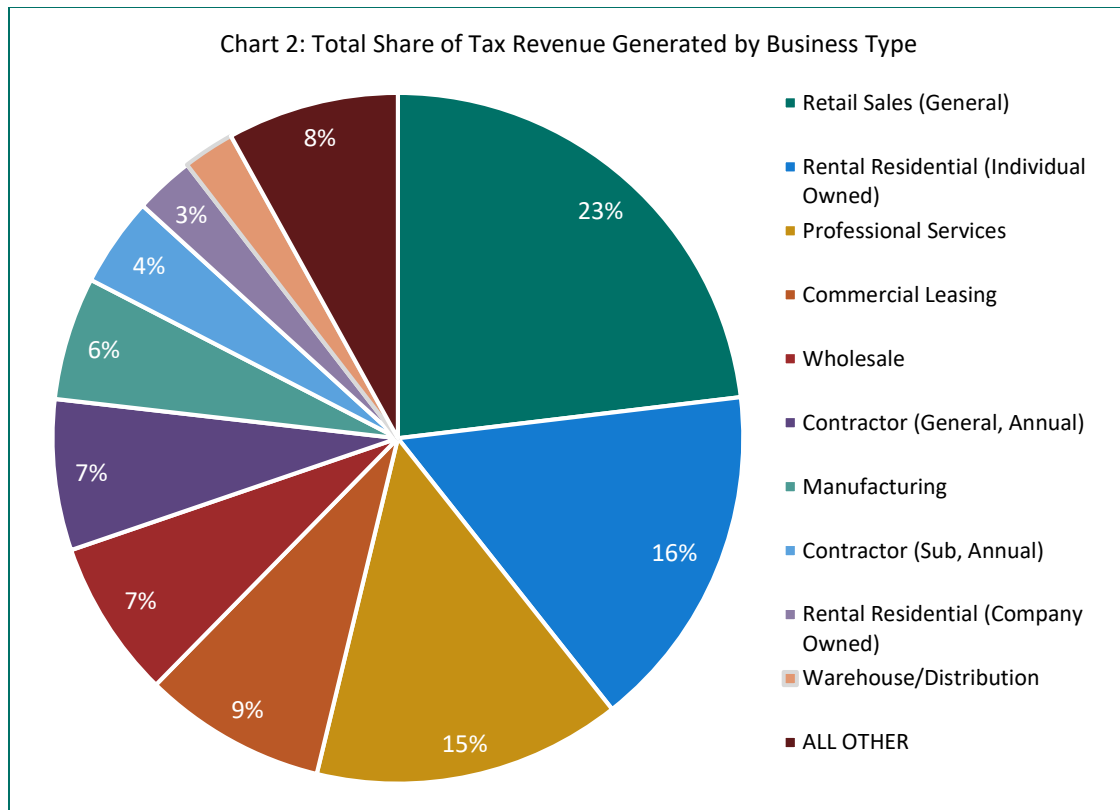
A note about fiscal years. Throughout this report, the fiscal year is referred to by the second of the two calendar years. For example, "FY 2019", means the fiscal year that started on July 1, 2018, and ended on June 30, 2019.

As you can see in Chart 1, below, the results of the City's business license tax have been steady. If the tax is not changed, and the economy remains roughly the same, the results of the City's current tax will likely remain roughly the same.



Three business types make up roughly 50% of revenue.

Chart 2, below, shows the key business types that generate the City's business tax revenue.



The City's current business license revenue is heavily dependent on the retail, residential rental, and professional services industries. Professional, retail, and residential rental make up over 50% of the tax results in Union City. Retail Sales (General) makes up about 9% of the count of businesses within the city but generates 23% of the total tax results in the City. In comparison, professional services make up about 18% of the business community but contribute about 15% of the revenue. While the proportion of business to their revenue contribution is not likely to be one-to-one, it is worth noting the deviations. Those may indicate areas of opportunity to improve the tax structure.

Existing classifications and rates are numerous.

Below is the City's rate schedule. It is a mixture of gross-receipts, gross-payroll, and fixed fee measures. As you read through, please note the number of classifications. Having this many classifications increases the administrative burden for City Staff and taxpayers, as does having several different measures of taxable activity.

Table 1: City Current Tax Structure

Group	Classification	Rate Calculation or Fixed Amount	Min. Tax
I	Hotels/Motels	$\$0.86 \times (\text{Gross Receipts}/\$1,000.00)$	\$132.00
I	Leasing, Commercial	$\$0.86 \times (\text{Gross Receipts}/\$1,000.00)$	\$132.00
I	Retail Sales – Firearms	$\$0.43 \times (\text{Gross Receipts}/\$1,000.00)$	\$132.00
I	Retail Sales – General	$\$0.43 \times (\text{Gross Receipts}/\$1,000.00)$	\$132.00
II	Administrative/General Office	$\$0.50 \times (\text{Gross Payroll}/\$1,000.00)$	\$132.00
II	Import/Export	$\$0.43 \times (\text{Gross Payroll}/\$1,000.00)$	\$132.00
II	Manufacturing	$\$0.43 \times (\text{Gross Payroll}/\$1,000.00)$	\$132.00
II	Warehouse/Distribution	$\$0.43 \times (\text{Gross Payroll}/\$1,000.00)$	\$132.00
II	Wholesale	$\$0.43 \times (\text{Gross Payroll}/\$1,000.00)$	\$132.00
III	General Contractor (1-4 emp.) (Annual)	\$324.00	
III	General Contractor (5-10 emp.) (Annual)	\$487.00	
III	General Contractor (10+ emp.) (Annual)	$\$487.00 + \$4.80 \text{ for each employee over } 10$	
III	General Contractor (1-4 emp.) (Quarterly)	$\$81.00 \times \text{Quarters Operating}$	
III	General Contractor (5-10 emp.) (Quarterly)	$\$121.75 \times \text{Quarters Operating}$	
III	General Contractor (10+ emp.) (Quarterly)	$(\$121.75 \times \text{Quarters Operating}) + (\$1.20 \text{ for each employee over } 10 \times \text{Quarters Operating})$	
III	Sub-Contractor (1-4 emp.) (Annual)	\$159.00	
III	Sub-Contractor (5-10 emp.) (Annual)	\$238.00	
III	Sub-Contractor (10+ emp.) (Annual)	$\$238.00 + \$2.10 \text{ for each employee over } 10$	
III	Sub-Contractor (1-4 emp.) (Quarterly)	$\$39.75 \times \text{Quarters Operating}$	
III	Sub-Contractor (5-10 emp.) (Quarterly)	$\$59.50 \times \text{Quarters Operating}$	
III	Sub-Contractor (10+ emp.) (Quarterly)	$(\$59.50 \times \text{Quarters Operating}) + (\$0.53 \text{ for each employee over } 10 \times \text{Quarters Operating})$	

Group	Classification	Rate Calculation or Fixed Amount	Min. Tax
IV	Advertising (see below for specific types):		
IV	Billboards	\$13.00 x # of Panels	
IV	Signs on Buses/Posts	\$218.00 x Quarters Operating	
IV	Handbills, Samples, Stickers (Daily)	\$47.00 x Days Operating	
IV	Handbills, Samples, Stickers (Quarterly)	\$93.00 x # of Persons x Quarters Operating	
IV	Searchlights	\$35.00 x # of Weeks Operating	
IV	Display Ad or Loudspeaker (on vehicle)	\$94.00 x # of Months Operating	
IV	Display Ad or Loudspeaker (on aircraft)	\$129.00 x # of Months Operating	
IV	Auctions	\$159.00 + \$67.00 for each Day over 1st Day	
IV	Billiard/Pool Tables	\$97.00 x # of Tables	
IV	Canvas/Soliciting	\$159.00 x # of Persons x Quarters Operating	
IV	Carnival/Circus	\$1,286.00 + \$641.00 for each Day over 1st Day	
IV	Christmas Tree/Holiday Lots	\$198.00 x # of Months Operating	
IV	Delivery/Catering Trucks (Annual)	\$265.00 x # of Vehicles	
IV	Delivery/Catering Trucks (Event)	\$9 x # of Vehicles x Events	
IV	Fireworks Booths	\$159.00 x # of Months Operating	
IV	Mobile Home Parks	\$583.00 + (\$31.00 x # Mobile Home (MH) Spaces)	
IV	Produce Stands, Temporary	\$9.00 x Days Operating	
IV	Public Dancing (Daily)	\$117.00 x Days Operating	
IV	Public Dancing (Quarterly)	\$198.00 x Quarters Operating	
IV	Rental Residential (Company Owned)	\$154.00 + \$13.00 for each Rental Unit over 4	
IV	Rental Residential (Individual Owned)	\$154.00 + \$13.00 for each Rental Unit over 4	
IV	Street Musicians	\$37.00 x # of Persons x Days Operating	
IV	Tool Sharpener	\$67.00 x # of Persons x Quarters Operating	
IV	Transportation, Public	\$196.00 x # of Vehicles	
IV	Vehicle Parking Lots	\$10.00 x # of Stalls	\$33.00
IV	Vending/Video Machines	\$35.00 x # of Machines	
IV	Vending/Video Machines (Excl. Rights Distr.)	0.25 x (1.30% x Gross Receipts)	












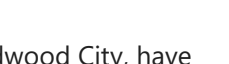
Group	Classification	Rate Calculation or Fixed Amount	Min. Tax
V	Bingo	\$97.00	
V	Club/Sales	\$641.00	
V	Directories – Classified	\$218.00	
V	Entertainment (over 500 seats/stalls)	\$1,286.00	
V	Entertainment (under 500 seats/stalls)	\$641.00	
V	Home Occupation	\$159.00	
V	Pawnbrokers	\$2,562.00	
V	Professional Services	\$265.00	
V	Public Utilities	\$641.00	
V	Recreation Parlor/Rink	\$641.00	
V	Towing	\$324.00	
V	UCLS Instructor (Ann. Inc. \$2,001 - \$5,000)	\$32.00	
V	UCLS Instructor (Ann. Inc. \$5,001 - \$10,000)	\$63.00	
V	UCLS Instructor (Ann. Inc. >\$10,000)	\$127.00	
V	Wrecking/Salvage	\$1,286.00	
VI	Exempt (Non-Profit or Exempt by Law)	\$25.00	

The City's tax revenue is near the bottom of the comparison cities.

Union City is near the bottom for business license tax revenue generation when compared to nearby and/or similar sized cities. In descending order based on business license tax revenue, Table 2 illustrates key features of each jurisdiction, namely population, estimated number of businesses, and business license tax revenue. The revenue trend diagrams indicate the lowest revenue (red) and highest (green) between FY2018 and FY2022.

Please note that the revenue is for the fiscal year 2021-2022, which is the most recent data available from the State. State data is used to allow a snapshot of how the City compares to its neighbors at a moment in time. The trendlines in the right-most column show the relative trends over time.

Table 2: Jurisdiction Comparison Data³

Jurisdiction Name	Est. Population	Population Density	Estimated Businesses	Tax Schedule General	Year Last Updated	Revenue in FY 21-22	5-Year State Reported Business Tax Trend
Modesto	218,464	5,075	11,000	Gross Receipts	1997	\$19,757,829	
Fremont	230,504	2,943	17,700	Gross Receipts / Hybrid	2016	\$11,663,725	
San Leandro	91,008	6,832	6,700	Employee / Units	2018	\$7,572,846	
Livermore	87,955	3,325	7,400	Gross Receipts / Gross Expenses	1995	\$7,738,628	
San Mateo	105,661	8,711	10,900	Gross Receipts / Flat Rate	1984	\$6,639,151	
Pleasanton	79,871	3,309	9,500	Gross Receipts	2017	\$5,294,430	
Hayward	162,954	3,556	8,000	Gross Receipts / Hybrid	1978	\$3,170,501	
Redwood City	84,292	4,358	7,800	Employee	2018	\$3,006,541	
Foster City	33,805	8,920	1,800	Gross Receipts	1990	\$1,583,789	
Union City	70,143	3,657	5,500	Multiple Tax Types	2013	\$1,787,652	
Newark	47,529	3,414	3,300	Flat Rate / Gross Receipts	1970	\$1,580,922	
Tracy ⁴	93,000	3,592	4,700	Employee	2022	\$1,038,012	

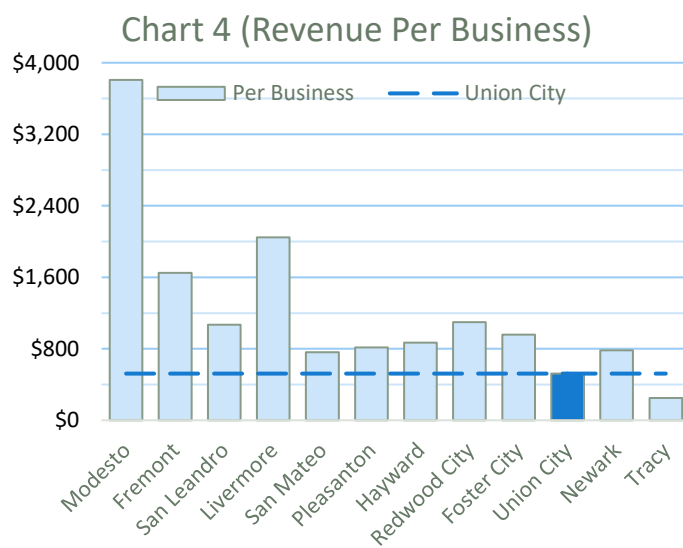
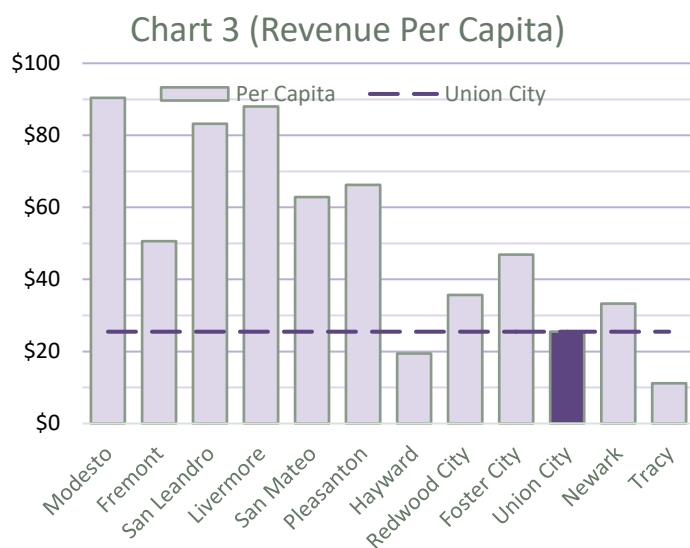
Union City has been mostly stable, while other nearby jurisdictions, like Fremont, Hayward, and Redwood City, have shown growth the business license tax revenue

³ Figures above are obtained from United States Census Bureau Records, California State Controller's Office Revenue Records, estimations using statewide averages, and data available in the HdL software environment.

⁴ Tracy has recently adopted a Gross Receipts model of business license taxation. For the years in the table, they taxed on a per-employee basis. The increase in revenue will be seen in Fiscal Year 2023, and no publicly reported figure is currently available for the impact of the change. However, in their ballot measure, it was estimated that they would see a quadrupling of their generated revenues or approximately \$4.1 million.

The City's results are low even when controlling for population and business size.

The cities in the comparison set of Table 2 vary in both population and number of businesses. Yet, even when controlled for the variables of population and number of businesses, Union City continues to rank lower than comparative cities as shown in the graphs below.



The City could increase taxes and still be competitive.

In the following pages, a detailed analysis evaluates how the City's business license tax compares with other jurisdictions when using hypothetical business types.

In Table 3 below, for example, hypothetical business types are compared among Union City, Fremont, Newark, and Tracy. Fremont and Newark were chosen because Union City shares the same economic climate as these neighboring communities. Tracy was included because the city's voters adopted a new business license tax formula, not unlike one of the models Union City may consider. The first column identifies the type of business. The second column from the left, lists the values for the key measures. For example, the Commercial Landlord is listed as having \$150,000 in gross receipts, 1 employee, and 5 rental units. The Dentist's office has \$2,000,000 in gross receipts, 10 employees, and zero rental units. While the table mentions gross receipts, which Tracy uses for example, if Union City would apply gross payroll then the dollar figure in this column refers to gross payroll for Union City and gross receipts for Tracy.

The remaining columns are the estimated business license taxes each business would pay in each city. This allows for a quick view of how much a particular kind of business might pay and how that compares in other jurisdictions. For example, a restaurant of the size noted below pays more in Union City than in Fremont, but Union City charges the lowest for the dentist's office. At the bottom of each column the total taxes from this set of business types are shown.

Table 3A: Hypothetical Businesses in Selected Comparison Cities - Revenue Generation

Sample Business	Gross Receipts/ Employee/Units	Union City	Fremont	Newark	Tracy (Adopted 2022)
Commercial Landlord	\$150,000/1/5	\$129.00	\$225.00	\$104.00	\$50.00
Restaurant Chain	\$625,000/20/0	\$268.75	\$186.25	\$431.00	\$175.00
Dentist Office	\$2,000,000/10/0	\$293.00	\$2,630.00	\$2,600.00	\$1,550.00
Residential Apartments	\$3,000,000/10/100	\$1,515.00	\$3,930.00	\$1,261.00	\$2,550.00
Warehousing/ Distribution	\$5,000,000/15/0	\$1,433.33	\$65.00	\$666.67	\$4,550.00
Supermarket	\$25,000,000/300/0	\$10,750.00	\$6,280.00	\$4,561.00	\$24,550.00
		\$14,389.08	\$13,316.25	\$9,623.67	\$33,425.00

The table below compares current business license tax rates across the same cities. This analysis reflects the variable rates among cities and how the rates compare. For example, the supermarket is charged under the "Retail Sales" classification in Union City at a rate of \$0.43/\$1,000 but under "General" classification in Newark at a rate of \$1,051 plus \$0.15 per \$1,000.

Table 3B: Hypothetical Businesses in Selected Comparison Cities – Rate Structure

Sample Business	Gross Receipts/ Employee/Units	Union City	Fremont	Newark	Tracy (Adopted 2022)
Commercial Landlord	\$150,000/1/5	Commercial Rental /(\$0.86 per \$1,000)	Rental Property/ (\$30+\$1.30/\$1,000)	Rental / GR Under \$150k - \$104	Rental (\$50 + \$3 per \$1,000 over \$500k
Restaurant Chain	\$625,000/20/0	Retail Sales/ (\$0.43 per \$1,000)	Retail Sales/ (\$30+\$0.25/\$1,000)	Rental / GR Under \$650k - \$431	General (\$50 + \$1 per \$1,000 over \$500k
Dentist Office	\$2,000,000/10/0	Professional (\$293)	Professional/ (\$30+\$1.30/\$1,000)	Professional / (\$1.30 per \$1,000)	Professional (\$50 + \$3 per \$1,000 over \$500k
Residential Apartments	\$3,000,000/10/100	Residential Rental (\$171 + \$14 per Unit)	Rental Property/ (\$30+\$1.30/\$1,000)	Rental / (\$1,051 + \$0.15 per \$1,000 over \$1.6M)	Rental (\$50 + \$3 per \$1,000 over \$500k
Warehousing/ Distribution	\$5,000,000/15/0	Warehousing/Distribution (\$0.43 per \$1,000 Gross Payroll)	Warehouse/ (\$65/50,000 SqFt)	General / (\$1,051 + \$0.15 per \$1,000 over \$1.6M)	Industrial / \$50 + \$1.50 per \$1,000 over \$500k
Supermarket	\$25,000,000/300/0	Retail Sales/ (\$0.43 per \$1,000)	Retail Sales/ (\$30+\$0.25/\$1,000)	General / (\$1,051 + \$0.15 per \$1,000 over \$1.6M)	General (\$50 + \$1 per \$1,000 over \$500k

Table 4A: Current Result Comparison Based on Sample Businesses

Sample Business	Gross Receipts/ Employee/Units	Union City	Foster City	Fremont	Hayward	Livermore	Modesto
Outside Subcontractor	\$5,000/1/0	\$176.00	\$200.00	\$120.50	\$53.50	\$10.00	\$85.00
Small Craft Business	\$20,000/1/0	\$176.00	\$100.00	\$36.00	\$101.30	\$40.00	\$35.00
Lawn & Gardening Services	\$50,000/2/0	\$147.00	\$100.00	\$35.00	\$46.70	\$80.00	\$150.00
General Contractor - Remodeling	\$85,000/3/0	\$358.00	\$200.00	\$103.50	\$53.50	\$102.00	\$135.00
Commercial Landlord	\$150,000/1/5	\$129.00	\$112.50	\$225.00	N/A	\$120.00	\$200.00
Engineering Firm	\$500,000/5/0	\$293.00	\$375.00	\$680.00	\$751.70	\$800.00	\$1,050.00
Restaurant Chain	\$625,000/20/0	\$268.75	\$468.75	\$186.25	\$132.00	\$1,500.00	\$675.00
Dentist Office	\$2,000,000/10/0	\$293.00	\$1,500.00	\$2,630.00	\$2,746.70	\$3,200.00	\$4,050.00
Residential Apartments	\$3,000,000/10/100	\$1,515.00	\$2,250.00	\$3,930.00	N/A	\$3,600.00	\$3,050.00
Warehousing/ Distribution	\$5,000,000/15/0	\$1,433.33	\$3,750.00	\$65.00	\$66.50	\$4,000.00	\$10,050.00
Supermarket	\$25,000,000/300/0	\$10,750.00	\$18,750.00	\$6,280.00	\$6,845.90	\$12,500.00	\$25,050.00
		\$15,363.08	\$27,806.25	\$14,291.25	\$10,797.80	\$25,952.00	\$44,530.00

In Tables 4A and 4B, we again compare the tax results for different businesses, but this time across more jurisdictions. We include these other jurisdictions to compare different types of tax structures and other jurisdictions around the region. Because of the number of jurisdictions, we have broken the comparisons into two sets of charts. Charts 4A and 4B compare the tax results, while charts 4C and 4D compare the rates.

Table 4B: Current Result Comparison Based on Sample Businesses

Sample Business	Gross Receipts/Employee/Units	Union City	Newark	Pleasanton	Redwood City	San Leandro	San Mateo	Tracy (Current)
Outside Subcontractor	\$5,000/1/0	\$176.00	\$96.00	\$25.00	\$133.00	\$226.60	\$40	\$50.00
Small Craft Business	\$20,000/1/0	\$176.00	\$39.00	\$25.00	\$133.00	\$184.00	\$25	\$50.00
Lawn & Gardening Services	\$50,000/2/0	\$147.00	\$72.00	\$50.00	\$186.00	\$357.20	\$46	\$50.00
General Contractor - Remodeling	\$85,000/3/0	\$358.00	\$96.00	\$50.00	\$133.00	\$396.80	\$100	\$50.00
Commercial Landlord	\$150,000/1/5	\$129.00	\$104.00	\$75.00	\$370.00	\$353.50	\$195	\$50.00
Engineering Firm	\$500,000/5/0	\$293.00	\$650.00	\$150.00	\$345.00	\$674.00	\$394	\$50.00
Restaurant Chain	\$625,000/20/0	\$268.75	\$431.00	\$187.50	\$1,140.00	\$991.50	\$466	\$175.00
Dentist Office	\$2,000,000/10/0	\$293.00	\$2,600.00	\$600.00	\$610.00	\$1,206.50	\$1,249	\$1,550.00
Residential Apartments	\$3,000,000/10/100	\$1,515.00	\$1,261.00	\$900.00	\$2,980.00	\$1,421.50	\$1,819	\$2,550.00
Warehousing/ Distribution	\$5,000,000/15/0	\$1,433.33	\$666.67	\$1,500.00	\$875.00	\$5,666.50	\$2,959	\$4,550.00
Supermarket	\$25,000,000/300/0	\$10,750.00	\$4,561.00	\$7,500.00	\$6,609.00	\$12,891.50	\$14,359	\$24,550.00
		\$15,363.08	\$10,576.67	\$11,062.50	\$13,514.00	\$24,369.60	\$21,653	\$33,675.00

Table 4C: Current Rate Comparison Based on Sample Businesses

Sample Business	Gross Receipts/ Employee/Units	Union City	Foster City	Fremont	Hayward	Livermore	Modesto
Outside Subcontractor	\$5,000/1/0	Sub-Contractor / Less than 4 Emp. - \$176	Contractor (\$0.75 per \$1,000 - Min \$200 - Max \$28,597)	Construction/ (\$125+\$0.10/\$1, 000)	Contractors / 3 or Less Employees - \$53.35	Contractor / Minimum Tax \$10 if < \$5,000 GR	Outside Contractor / (\$75 + \$1 per \$1,000)
Small Craft Business	\$20,000/1/0	Retail Sales / (Min \$147)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Retail Sales/ (\$30+\$0.25/\$1,0 00)	Class I / Less than \$30,000 - \$16	Retail / (\$0.80 / \$1,000, \$40 Min)	Home Occupation / \$35.00
Lawn & Gardening Services	\$50,000/2/0	Home Occupation (\$176)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Service/ (\$30+\$1.00/\$1,0 00)	Class I / Less than \$60,000 - \$24	Miscellaneous / (\$1.60 per \$1,000, \$40 Min)	Professions and Services/ (\$50 + \$2 per \$1,000)
General Contractor - Remodeling	\$85,000/3/0	Contractor/ Less than 4 Emp. - \$358	Contractor (\$0.75 per \$1,000 - Min \$200 - Max \$28,597)	Construction/ (\$125+\$0.10/\$1, 000)	Contractors / 3 or Less Employees - \$53.35	Contractor / (\$0.80 / \$1,000, \$40 Min)	Outside Contractor / (\$75 + \$1 per \$1,000)
Commercial Landlord	\$150,000/1/5	Commercial Rental / (\$0.86 per \$1,000)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Rental Property/ (\$30+\$1.30/\$1,0 00)	Repealed by Ordinance No. 68-030 C.S.	Non-Res. Property Rental / (\$1.20 / \$1,000)	Retail-Misc. / (\$50 + \$1 per \$1,000)
Engineering Firm	\$500,000/5/0	Professional (\$293)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Professional/ (\$30+\$1.30/\$1,0 00)	Professional / (\$100 + \$1.33 per \$1,000 over \$100k)	Professional / (\$1.60 / \$1,000, \$40 Min)	Professions and Services/ (\$50 + \$2 per \$1,000)
Restaurant Chain	\$625,000/20/0	Retail Sales/ (\$0.43 per \$1,000)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Retail Sales/ (\$30+\$0.25/\$1,0 00)	Class I / Less than \$700,000 - \$132	Retail / (\$0.80 / \$1,000, \$40 Min)	Retail-Misc. / (\$50 + \$1 per \$1,000)
Dentist Office	\$2,000,000/10/0	Professional (\$293)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Professional/ (\$30+\$1.30/\$1,0 00)	Professional / (\$100 + \$1.33 per \$1,000 over \$100k)	Professional / (\$1.60 / \$1,000, \$40 Min)	Professions and Services/ (\$50 + \$2 per \$1,000)

Residential Apartments	\$3,000,000/10/100	Residential Rental (\$171+ \$14 per Unit)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Rental Property/ (\$30+\$1.30/\$1,000)	Repealed by Ordinance No. 68-030 C.S.	Res. Property Rental / (\$1.20 / \$1,000)	Retail-Misc. / (\$50 + \$1 per \$1,000)
Warehousing/ Distribution	\$5,000,000/15/0	Warehousing/Distribution (\$0.43 per \$1,000 Gross Payroll)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Warehouse/ (\$65/ 50,000 SqFt)	Warehouse / \$1.33 per Sqft	Warehouse/ (\$0.80 / \$1,000, \$40 Min)	Professions and Services/ (\$50 + \$2 per \$1,000)
Supermarket	\$25,000,000/300/0	Retail Sales/ (\$0.43 per \$1,000)	General (\$0.75 per \$1,000 - Min \$100 - Max \$28,597)	Retail Sales/ (\$30+\$0.25/\$1,000)	Class I / (373.35+ \$0.11 per \$1,000 over \$3M)	Retail / (\$0.80 / \$1,000, \$40 Min)	Retail-Misc. / (\$50 + \$1 per \$1,000)

Table 4D: Current Rate Comparison Based on Sample Businesses

Sample Business	Gross Receipts/Employee/Units	Union City	Newark	Pleasanton	Redwood City	San Leandro	San Mateo	Tracy (Current)
Outside Subcontractor	\$5,000/1/0	Sub-Contractor / Less than 4 Emp. - \$176	Contractor / GR Under \$100k - \$96	General / GR Under \$25,000 - \$25	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Contractor/ (\$141.50 + \$85.10 per Employee)	Sub-Contractor / \$40	Contractor (\$50 + \$2 per \$1,000 over \$500k)
Small Craft Business	\$20,000/1/0	Retail Sales / (Min \$147)	General / GR Under \$50k - \$39	General / GR Under \$25,000 - \$25	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Retail / (\$141.50 + \$42.50 per \$1,000)	General / (GR Under \$30,000 - \$25)	General (\$50 + \$1 per \$1,000 over \$500k)
Lawn & Gardening Services	\$50,000/2/0	Home Occupation (\$176)	General / GR Under \$50k - \$39	General / GR Under \$100,000 - \$50	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Service/ (\$141.50 + \$85.10 per Employee)	General / (GR Under \$500,000 - \$46)	Service (\$50 + \$2 per \$1,000 over \$500k)
General Contractor - Remodeling	\$85,000/3/0	Contractor/ Less than 4 Emp. - \$358	Contractor / GR Under \$100k - \$96	General / GR Under \$100,000 - \$50	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Contractor/ (\$141.50 + \$85.10 per Employee)	Contractor / \$100	Contractor (\$50 + \$2 per \$1,000 over \$500k)
Commercial Landlord	\$150,000/1/5	Commercial Rental /(\$0.86 per \$1,000)	Rental / GR Under \$150k - \$104	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	Commercial Rental / (\$80 + \$29 per 1,000 Sqft)	Non-Res. Property Rental / (\$141.50 + \$23.20 per 1,000Sqft)	General / (\$115+ \$2.85 per \$5,000 over \$100,000)	Rental (\$50 + \$3 per \$1,000 over \$500k)
Engineering Firm	\$500,000/5/0	Professional (\$293)	Professional / (\$1.30 per \$1,000)	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Professional/ (\$141.50 + \$106.50 per Employee)	Professional / (\$115+ \$2.85 per \$5,000 over \$100,000)	Professional (\$50 + \$3 per \$1,000 over \$500k)
Restaurant Chain	\$625,000/20/0	Retail Sales/ (\$0.43 per \$1,000)	Rental / GR Under \$650k - \$431	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Retail / (\$141.50 + \$42.50 per \$1,000)	General / (\$115+ \$2.85 per \$5,000 over \$100,000)	General (\$50 + \$1 per \$1,000 over \$500k)

Dentist Office	\$2,000,000/10/0	Professional (\$293)	Professional / (\$1.30 per \$1,000)	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Professional/ (\$141.50+ \$106.50 per Employee)	General / (\$115+ \$2.85 per \$5,000 over \$100,000)	Professional (\$50 + \$3 per \$1,000 over \$500k)
Residential Apartments	\$3,000,000/10/100	Residential Rental (\$171+ \$14 per Unit)	Rental / (\$1,051 + \$0.15 per \$1,000 over \$1.6M)	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	Residential Rental / (\$80 + \$29 per Unit)	Res. Property Rental/ (\$141.50 + \$14 per Unit)	General / (\$115+ \$2.85 per \$5,000 over \$100,000)	Rental (\$50 + \$3 per \$1,000 over \$500k)
Warehousing/ Distribution	\$5,000,000/15/0	Warehousing/Distribution (\$0.43 per \$1,000 Gross Payroll)	General / (\$1,051 + \$0.15 per \$1,000 over \$1.6M)	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Warehouse/ (\$141.50 + \$110.50 per 1,000 Sqft)	General / (\$115+ \$2.85 per \$5,000 over \$100,000)	Industrial / \$50 + \$1.50 per \$1,000 over \$500k
Supermarket	\$25,000,000/300/0	Retail Sales/ (\$0.43 per \$1,000)	General / (\$1,051 + \$0.15 per \$1,000 over \$1.6M)	General / (\$75 + \$0.30 per \$1,000 over \$250,000)	General / (\$80 + \$53 per FT Employee + \$26 per PT Employee)	Retail / (\$141.50 + \$42.50 per \$1,000)	General / (\$115+ \$2.85 per \$5,000 over \$100,000)	General (\$50 + \$1 per \$1,000 over \$500k)

SECTION 2 – Category & Tax Analysis

HdL has worked with City staff to explore options to increase revenue for the City. After exploring several options, two options have been refined. Each option is referred to as a “model.”

Gross Receipts Tax – Estimates

Many California jurisdictions use some form of gross receipts tax structure for their business license tax. The benefits of gross-receipts-based taxes are the potential equity of their effective tax rate, ease of calculation, and potential for capturing revenue from economic growth. The drawback is that it exposes City revenues to fluctuations in gross receipts in the economy and may concentrate revenue in the highest-grossing businesses.

The following figures are used as the foundation for the models below:

Table 5: Key Estimates Used In The Gross Receipts Models

Number of Businesses	Estimated Total Taxable Gross Receipts	Annual Business Tax Revenue
5,404	\$5.16 Billion	\$1,788,814.44

All models presented below should be considered a starting point for discussion. Decisions about specific rates should consider the increased tax burden on businesses, the current rate for business license tax, and the City's goals.

Please note that the total taxable gross receipts are estimates. This is not information that is currently collected for every business in the City. Accordingly, we used estimates based on statewide averages for a particular type of business and cross-checked with sales tax data and census data to try and hone the estimates.

In the models below, we have also assigned business to certain classifications. Since the models reduce the number of classifications, we sometimes assign businesses to new classifications. These, too, are “estimates.” They are based on the data given and some assumptions about how those classifications will be mapped. Since rates are tied to classifications, moving a business from one classification to another can impact the rate applied and the estimated revenue.

Key Options: Gross Receipts Tax – Classification-Based Rates

Tax Structure and Estimated Revenue

Both models use multiple categories to allow for different rates per classification. Should the City decide to use a gross receipts model like the models below, HdL will work with City staff to finalize a structure that best serves the City's goals. It is important to remember that these models use estimated gross receipts based on the business classification, which may overestimate or underestimate the actual gross receipts in the City. We believe, however, that it gives a useful representation of the potential impact of the proposed tax structure. While these numbers should not be used for precise budgeting, useful insights are contained in the industry averages for the business classifications.

Table 6: Basic Tax Structure For Classification-Based Gross Receipts

Categories	Minimum Rate	Model 1	Model 2
General/Retail	\$147	\$0.43 / Thousand X Gross	\$0.43 / Thousand X Gross
Professional	\$293	\$2.50 / Thousand X Gross	\$0.43 / Thousand X Gross
Contractors	\$167	\$1.50 / Thousand X Gross	\$0.43 / Thousand X Gross
Service	\$293	\$2 / Thousand X Gross	\$0.43 / Thousand X Gross
Rental	\$171	\$1.75 / Thousand X Gross	\$0.43 / Thousand X Gross
Exempt	Exempt	Exempt	Exempt
Industrial - Manufacturing/Wholesaling	\$147	\$0.43 / Thousand X Gross	\$0.43 / Thousand X Gross
Industrial - Warehousing	\$147	\$0.43 / Thousand X Gross	\$0.43 / Thousand X Gross
Mobile Home Parks	\$646	\$35 / Space	\$35 / Space

As shown in Model 1, each classification (or category) has its own rate. These are relatively small rates. For example, a service provider would pay \$2.00 for every \$1,000 in gross receipts. That is \$.20 for every \$100 or two pennies for every ten dollars. A sales tax, on the other hand, would be \$10 for every \$1,000.

Model 2 applies a single gross-receipt rate to all categories (except mobile home parks and exempt businesses). Model 2 essentially keeps the City's current gross receipt rate but applies it to *all* the classifications.

Please also note that both models keep the existing minimum rate, and we would recommend that if the minimum rate is adopted, the City also include language allowing for CPI adjustments to the minimum rates.

The table below presents the estimated revenue from each classification and the total model for each model. As one can see, Model 1, with its more aggressive rates, would result in more revenue. Model 2 takes a more conservative approach but still increases revenue by nearly \$1.5 million over the existing structure. Both models would simplify the classifications and thus likely reduce the administrative complexity of the tax.

Table 7: Estimated Revenue From Classification-Based Gross Receipts

Business Type	Number of Businesses	Est. Gross Receipts	Current Taxes	Est. Annual Gross Receipts Tax Model 1	Est. Annual Gross Receipts Tax Model 2
General/Retail	655	\$919,940,000.00	\$451,823.71	\$485,448.33	\$485,448.33
Professional	1,011	\$431,293,000.00	\$263,881.16	\$1,311,330.50	\$470,821.49
Contractors	1,067	\$374,099,000.00	\$231,596.59	\$699,325.00	\$327,581.32
Service	60	\$144,347,000.00	\$25,436.54	\$303,348.00	\$79,020.12
Rental	2,210	\$300,758,000.00	\$503,057.30	\$808,436.25	\$483,696.45
Exempt	95	\$59,488,000.00	\$2,375.00	\$0	\$0

Industrial - Manufacturing/Wholesaling	209	\$2,492,946,000.00	\$238,294.99	\$1,100,470.55	\$1,100,470.55
Industrial - Warehousing	95	\$441,971,000.00	\$43,407.15	\$202,991.28	\$202,991.28
Mobile Home Parks	2	N/A	\$28,942.00	\$32,652.00	\$32,652.00
	5,404	\$5,164,842,000.00	\$1,788,814.44	\$4,944,001.91	\$3,182,681.54

The new models shift more of the tax impact away from general retail, which is already contributing significantly, and toward professional services and the two industrial-based classifications.

Proposed Rates Comparisons

Table 8: Comparing Models By Hypothetical Business Type

Sample Business	Gross Receipts/ Employee/Units	Current Rate	Model 1	Model 2	Fremont	Newark
Outside Subcontractor	\$5,000/1/0	\$176.00	\$167.00	\$167.00	\$120.50	\$96.00
Small Craft Business	\$20,000/1/0	\$176.00	\$147.00	\$147.00	\$36.00	\$39.00
Lawn & Gardening Services	\$50,000/2/0	\$147.00	\$343.00	\$303.75	\$35.00	\$72.00
General Contractor - Remodeling	\$85,000/3/0	\$258.00	\$257.00	\$192.80	\$103.50	\$96.00
Commercial Landlord	\$150,000/1/5	\$129.00	\$389.75	\$224.75	\$225.00	\$104.00
Engineering Firm	\$500,000/5/0	\$293.00	\$1,480.50	\$497.25	\$680.00	\$650.00
Restaurant Chain	\$625,000/20/0	\$268.75	\$405.00	\$405.00	\$186.25	\$431.00
Dentist Office	\$2,000,000/10/0	\$293.00	\$5,230.50	\$1,142.25	\$2,630.00	\$2,600.00
Residential Apartments	\$3,000,000/10/100	\$1,515.00	\$5,377.25	\$1,450.25	\$3,930.00	\$1,261.00
Warehousing/ Distribution	\$5,000,000/15/0	\$1,433.33	\$2,286.25	\$2,286.25	\$65.00	\$666.67
Supermarket	\$25,000,000/300/0	\$10,750.00	\$10,886.25	\$10,886.25	\$6,280.00	\$4,561.00
		\$15,263.08	\$26,969.50	\$17,535.55	\$14,291.25	\$10,576.67

Model 1 would move the City into the higher-grossing cities behind Tracy and Modesto. As shown in Table 8, however, Model 2 remains competitive compared to Fremont and Newark. And for some businesses, it could result in little to no impact.

Conclusion

The City's business tax revenue is mostly stable. There are no signs of large growth patterns. Given inflation and increased costs of services for cities in California, a stable revenue source, while reliable, is likely lagging behind costs. To the extent that the City wants to increase revenue and simplify administration, both models presented will likely accomplish those objectives. Model 1 would likely yield more revenue but would position the City more aggressively than most neighboring jurisdictions. Model 2 keeps the City in nearly the same "competitive" position while increasing revenue by about \$1 million annually.



Agenda Item

DATE: 3/28/2024

TO: HONORABLE MAYOR AND CITY COUNCIL

FROM: JOAN MALLOY, CITY MANAGER

SUBJECT: ADOPT A RESOLUTION APPROVING THE FORMATION OF, AND THE MAYOR'S APPOINTMENT OF TWO COUNCILMEMBERS TO, AN AD HOC SUBCOMMITTEE TO EVALUATE AND PROVIDE RECOMMENDATIONS ON THE SECOND PHASE COMMUNITY SURVEY TO INFORM THE PLACEMENT OF POTENTIAL REVENUE MEASURES ON THE NOVEMBER 2024 BALLOT

Staff recommends that the City Council adopt a resolution approving the formation of, and the Mayor's appointment of two Councilmembers to, an Ad Hoc Subcommittee to evaluate and provide recommendations on the second phase community survey to inform the placement of potential revenue measures on the November 2024 ballot.

STRATEGIC PLAN ALIGNMENT

This item is in alignment with **Goal A. Financial Stability and Sustainability** of the City Council Strategic Plan. Under Goal A, it is specifically related to the following strategies:

- **Strategy 1:** Develop a comprehensive fiscal sustainability model to address the General Fund's long-term structural deficit.
- **Strategy 8:** Determine the feasibility of a revenue ballot measure for November 2024 and/or November 2026 to address critical facilities and infrastructure needs.
- **Strategy 9:** Pursue the placement of a voter-approved revenue measure on a ballot to address the funding gap between revenues and expenditures for fundamental public safety and other city services.
- **Strategy 10:** Study the benefits and opportunity to update the City's business license tax for voter consideration.

BACKGROUND

At the June 13, 2023 study session and public hearing for the FY 2023-2024 and FY 2024-2025 Biennial

Budget and Five-Year Capital Improvement Plan, and review of the long-range financial forecast, the City Council expressed an interest in exploring possible voter-approved revenue measures to address anticipated future gaps in funding City services, in particular public safety services. While the City currently maintains a healthy General Fund reserve, the rising costs of supplies, equipment, contracts, and employee salaries, and retirement obligations, are projected to adversely impact the General Fund. The rise in expenditures is growing faster than City revenues. The General Fund is projected to fall to the minimum reserve fund balance of twenty percent of its annual operating expenditures by 2029, which is equivalent to approximately ten weeks of operations. The City Council has prudently adopted Financial Principles to maintain a minimum of twenty percent General Fund reserve. In addition, the City Council has identified fiscal stability and sustainability as its primary goal in the Strategic Plan.

Given the City's long-term financial forecast, on July 11, 2023, the City Council adopted Resolution No. 6164-23 authorizing the City to engage TeamCivX in evaluating community support for a potential revenue measure in either the March 2024 primary election or in November 2024 general election, which included a statistically reliable opinion survey of local voters conducted by Godbe Research.

To support this evaluation process, a City Council Ad Hoc Subcommittee ("Subcommittee") comprised of Mayor Carol Dutra-Vernaci and Councilmember Jeff Wang was created on August 21, 2023 via Resolution No. 6195-23. The Subcommittee was tasked to analyze and provide recommendations on the potential placement of a revenue measure in March 2024. The Subcommittee reviewed the preparation of the community survey that would help the City Council understand voter attitudes towards a ballot measure and provided recommendations to the City Council based on survey results.

The community survey that was conducted by Godbe Research assessed voter attitudes and potential support specifically for a Public Safety Parcel Tax (PSPT) measure to restore and protect public safety services. The survey occurred between September 6-18, 2023 and the results of that survey were presented to the City Council on November 14, 2023. The survey concluded that a PSPT in March 2024 did not likely have the community support to succeed, in part because the high voter threshold of 66.67% would be necessary for a parcel tax to pass.

At the November 14, 2023 meeting, the City Council directed staff to not proceed with the PSPT for the March 2024 primary election, and instead to focus on potential revenue measures that could be considered for the November 2024 general election. This included a possible increase to the Utility Users' Tax (UUT), updates to the Business License Tax (BLT), and options for a renewal of the PSPT.

DISCUSSION

To further refine and help identify which revenue measure(s) should be placed in the November 2024 general election for voter consideration, staff recognizes that the City Council would need additional information. Aside from general communications on the City's financial outlook, a second community survey is planned for the April/May 2024 timeframe.

Staff is seeking the formation and appointment of two Councilmembers to an Ad Hoc Subcommittee to work with TeamCivX, Godbe Research, and staff to review the proposed community survey and provide recommendations to the City Council once survey results are known. This second phase community survey will be shaped from the feedback received to-date and will aid the City Council in understanding how voter attitudes may have shifted over the last six months, as well as to help narrow down the revenue measure options being considered.

The City Council will consider next steps in terms of proceeding with additional outreach/engagement and the placement of a revenue measure or measures on the November 2024 ballot based on survey results and the

recommendations of the Ad Hoc Subcommittee.

FISCAL IMPACT

There is no fiscal impact of City Council taking the recommended action.

RECOMMENDATION

Staff recommends that the City Council adopt a resolution approving the formation of, and the Mayor's appointment of two Councilmembers to, an Ad Hoc Subcommittee to evaluate and provide recommendations on the second phase community survey to inform the placement of potential revenue measures on the November 2024 ballot.

Prepared by:

Jennifer Phan, Deputy City Manager

Submitted by:

Jennifer Phan, Deputy City Manager

ATTACHMENTS:

Description		Type
	Attachment 1 - Resolution	Resolution
	PowerPoint Presentation	Attachment

RESOLUTION NO. XXXX-24

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF UNION CITY APPROVING THE FORMATION OF, AND THE MAYOR'S APPOINTMENT OF TWO COUNCILMEMBERS TO, AN AD HOC SUBCOMMITTEE TO EVALUATE AND PROVIDE RECOMMENDATIONS ON THE SECOND PHASE COMMUNITY SURVEY TO INFORM THE PLACEMENT OF POTENTIAL REVENUE MEASURES ON THE NOVEMBER 2024 BALLOT

WHEREAS, Union City has historically relied upon voter approved measures to provide fundamental services in the community, including, but not limited to, public safety, street and park maintenance, senior services, and youth violence prevention programs; and

WHEREAS, the City Council adopted a five-year strategic plan in September 2019 and updated in 2021 and 2023 that established as "Goal A. Fiscal Stability and Sustainability" as its primary goal; and

WHEREAS, the rising costs of supplies, equipment, contracts, and employee salaries, and retirement obligations, are projected to adversely impact the General Fund causing it fall to the minimum reserve fund balance of twenty percent of its annual operating expenditures by 2028; and

WHEREAS, the loss of General Fund revenues threatens funding that support ongoing public safety and other critical services for the community; and

WHEREAS, the first phase community survey was conducted in September 2023 to assess voter attitudes and potential support specifically for a Public Safety Parcel Tax (PSPT) measure to restore and protect public safety services; and

WHEREAS, a second phase community survey will gauge how voter attitudes may have shifted over the last six months, as well as help narrow down the revenue measure options being considered; and

WHEREAS, the City Council desires to establish an Ad Hoc Subcommittee to evaluate, review, and help inform the second community survey on potential voter-approved revenue measures to protect and fund critical City services; and

WHEREAS, pursuant to California Government Code Section 54952(b), the Ad Hoc Subcommittee has a specific and limited purpose, and therefore, is not subject to the Brown Act and will be dissolved once it has completed its purpose – that is, once policy direction on placement of the ballot measure(s) is provided.

NOW THEREFORE, BE IT RESOLVED, that the City Council of the City of Union City hereby approves the formation of, and the Mayor's appointment of _____ and _____ to, an Ad Hoc Subcommittee to evaluate and provide

recommendations on the second phase community survey to inform the placement of potential revenue measures on the November 2024 ballot.

PASSED, APPROVED, AND ADOPTED by the City Council of the City of Union City at a special meeting held on the 28th day of March, 2024, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

APPROVED:

CAROL DUTRA-VERNACI
Mayor

ATTESTED:

APPROVED AS TO FORM:

THAI NAM PHAM
City Clerk

KRISTOPHER J. KOKOTAYLO
City Attorney