City of
Foster City

Business Tax Analysis
&
Ordinance Review

May 16, 2024

Final

HdL Companies

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Executive Summary

Background

In accordance with the City Municipal Code (Title 5 "Business Licenses and Regulation" § 5.04.030), all businesses operating within the City of Foster City (the "City") are required to obtain a business license and pay associated taxes. This revenue is locally controlled and funds essential services. The City commissioned HdL Companies ("HdL" or "we," "us," "our," or similar terms) to prepare this tax study to review the administrative efficiency of the current structures, to review options for improving the business license tax structure, if any, and to investigate the possibilities for additional revenue generation.

Summary

The City utilizes a single rate gross receipts tax of $0.75, which utilizes a minimum tax of $100 (general contractors pay $200) and a maximum tax (of $28,597 based on FY2023's licensing period).

Generally, single-rate gross receipt tax structures allow the City to capture all gross captured generated locally and tie the City to the economic growth of the business community. However, higher minimum taxes and maximum tax limits undermine the advantages inherent in this simple structure.

More than 70% of businesses pay the minimum tax amount, which impacts the revenue needed for essential city services. In contrast, about 20 businesses pay the current cap, which requires a business to gross more than approximately $33 million. For these large businesses, gross receipts are uncommonly high.

Report Structure

We have divided this report into two major sections and an appendix.

Section 1

In the first section, we review the City's tax code and historical revenue to establish foundational facts about the City's current Business License tax structure. Additionally, we compare the City's tax structure and revenue to neighboring or similar jurisdictions.

Section 2

In the second section, we reviewed five different models to determine which ones more closely align with the City's revenue and policy. We looked at a straight increase to the current maximum business license tax/cap (Model 1), a single tax rate without a cap (Model 2), a model based on different rates for different types of businesses (Model 3), a model that preserved the current structure but adjusted the rates and the cap (Model 4), and a per-employee model (Model 5). Given that Model 4 was a closer fit to the City's objectives and it roughly preserves the current structure, we also focused on that model with some additional variations as provided in Appendix C.

Appendices

Appendix A outlines the categories of businesses utilized in Model 3 and provides basic statistics used in the model for each category.

Appendix B outlines the logic used in selecting the comparison jurisdictions.

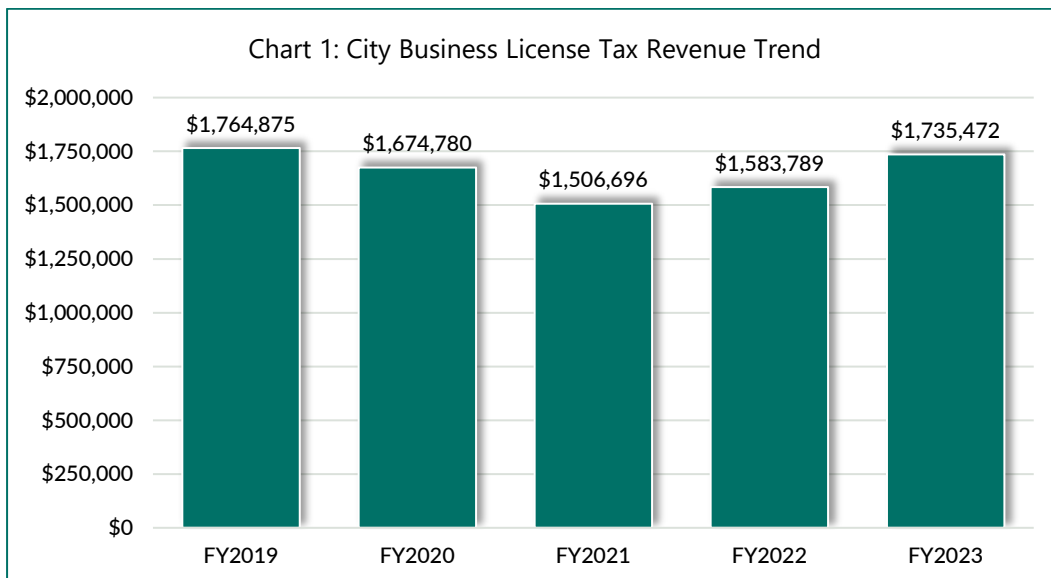Appendix C focuses on updated variations of Model 4.

Business License Tax: An Overview

As of this report, the City has approximately 1,651 businesses contributing to the business license tax. Since fiscal year (FY) 2019, business license tax revenue has averaged approximately $1,653, 122. This study is based on $1,394,000[1] in business license tax revenue from business licenses issued between July 1, 2022, and June 30, 2023.

As you can see in Chart 1, overall, revenues from business license taxes have been steady. They did dip as a result of the pandemic—as you see in FY 2021—by about 8%.[2] Revenue has since recovered after the modest dip in business tax revenue.

Please note that throughout this study we have used the data from the 2023 licensing period, which is to say any license that expired in 2023, when providing details from the City's existing tax structure and when estimating the current revenue, we used a lower amount than the actual results in 2023 to adjust for some uncertainties in the gross-receipt reporting (as noted above and in footnote 1).

Chart 1: City Business License Tax Revenue Trend

FY	Revenue
FY2019	$1,764,875
FY2020	$1,674,780
FY2021	$1,506,696
FY2022	$1,583,789
FY2023	$1,735,472

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[1] Tax revenue was based on the active businesses in the City data, but gross receipts were adjusted for outlier businesses with significantly higher reported gross receipts. The adjusted gross receipts, require us to use a comparable business license tax amount.

[2] The dip in revenues is in FY 20-21 because the gross-receipts are reported a year after they are earned. So the gross receipts reported for licenses issued in FY 20-21 were actually from business activity that occurred in FY 19-20.

[3] The revenues in chart 1 are based on City-provided data..

Business License Tax: Business Type Analysis

Chart 2, below, shows the key business types that generate the City's business tax revenue. These show the key kinds of economic activity currently in the City.

Chart 2: Total Share of Tax Revenue Generated by Business Type

The City currently tracks approximately 194 different combinations of business types and subtypes for its general business license tax. For ease of presentation, we have grouped the City's data into 9 business categories.

The City is heavily dependent on the business service industry, which includes businesses such as research & development, warehousing, and technology. Professional, Business, and Personal Services make up approximately 50% of the tax base in Foster City. By comparison, Union City and Belmont both have approximately 30% business activity in the service industry. Taking Belmont and Union City as proxies for both the west and east sides of the bay, Foster City possesses a higher percentage of professional service businesses. Unlike retail or rental properties, service businesses are limited in how they contribute to the tax base since they tend not to contribute to either sales tax or property tax.

Business License Tax: Rate Schedule Review

The City utilizes a single rate gross receipts with a minimum and maximum tax.

Table 1: City Current Tax Structure

Category	Minimum Tax	Gross Receipt Rate	Maximum Tax	Business Count	Total Reported[4] Gross Receipts	Tax Collected
General Contractor	$200	$0.75 per thousand	$28,597	449	$204,000,000	$203,000
All Other Businesses	$100			1,202	$59,895,000,000	$1,448,000
			Totals	1,651	$60,099,000,000	$1,651,000

Two factors reduce the amount of tax revenue generated from the reported gross receipts. The first is the cap. Businesses paying the maximum tax amount often report gross receipts that are significantly higher than the amount of the cap (in some cases hundreds of times more than the amount of the cap). Second is the tax limit on the number of multiple corporate entities. The City's current Ordinance limits the tax on multiple corporate entities conducting business at the same location to three (3) entities with the highest gross receipts (FCMC Section 5.24.020).

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[4] Gross receipts represented in the tables are based on the reported gross receipts; however, while these are the reported gross receipts, the models discount these gross receipts to account for potential uncertainties in reporting..

Jurisdiction Comparisons

This section highlights the key stats of the comparison cities. The data in this section is based on data reported to the State of California and the US Census Bureau. We also use estimates where data is not available.

Jurisdictions Comparison Summary

In consultation with the City, we created a set of jurisdictions that might give us a picture of how the City is doing compared to these similar jurisdictions. 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.

Table 2: Jurisdiction Data

Jurisdiction Name	Population	Median Household Income	Est. Annual Businesses	State Report Revenue (FY2022)	Tax Schedules (General)	Latest Code Updated	Revenue Trend FY2018 – FY2022
Richmond[5]	116,448	$79,478	5,190	$8,491,418	Gross Receipts with Measure	2022	
San Mateo	105,661	$133,612	7,070	$6,639,151	Gross Receipts / Flat Rate	1984	
Daly City	104,901	$105,374	3,780	$5,710,745	Gross Receipts	2004	
Hayward	162,954	$98,837	8,717	$3,170,501	Gross Receipts / Hybrid	1978	
South San Francisco	66,105	$112,818	6,490	$2,741,082	Employee Based	2008	
San Bruno	43,908	$117,747	4,171	$2,277,785	Flat Rate with Gross Receipt Measure	1999	
Union City[6]	70,143	$127,828	3,650	$1,787,652	Multiple Tax Types	1990	
Sausalito	7,269	$140,417	2,737	$1,649,760	Gross Receipts	2018	
Foster City	33,805	$173,721	1,651	$1,583,789	Gross Receipts / Capped	2013	
San Carlos	30,722	$204,570	3,420	$1,110,893	Employee Based	2017	
Belmont[7]	28,335	$178,125	2,015	$1,068,168	Employee Based	1990	
Burlingame	31,386	$150,182	4,170	$889,658	Flat Rate with Gross Receipts Measures	2022	

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[5] Richmond adopted a new gross receipt tax structure in 2020 – Measure U.

[6] Union City is currently considering modernizing their business license tax.

[7] Belmont is currently considering modernizing their business license tax.

Business License Tax Revenue Impact Comparison

Business license tax revenue per capita is arguably one of the most important statistics that help determine how well a city's business license tax structure produces revenue, given the population size. Additionally, revenue per business allows us to see how productive a tax is once the number of businesses is controlled for. These measures allow us to compare cities of varying populations and business communities,
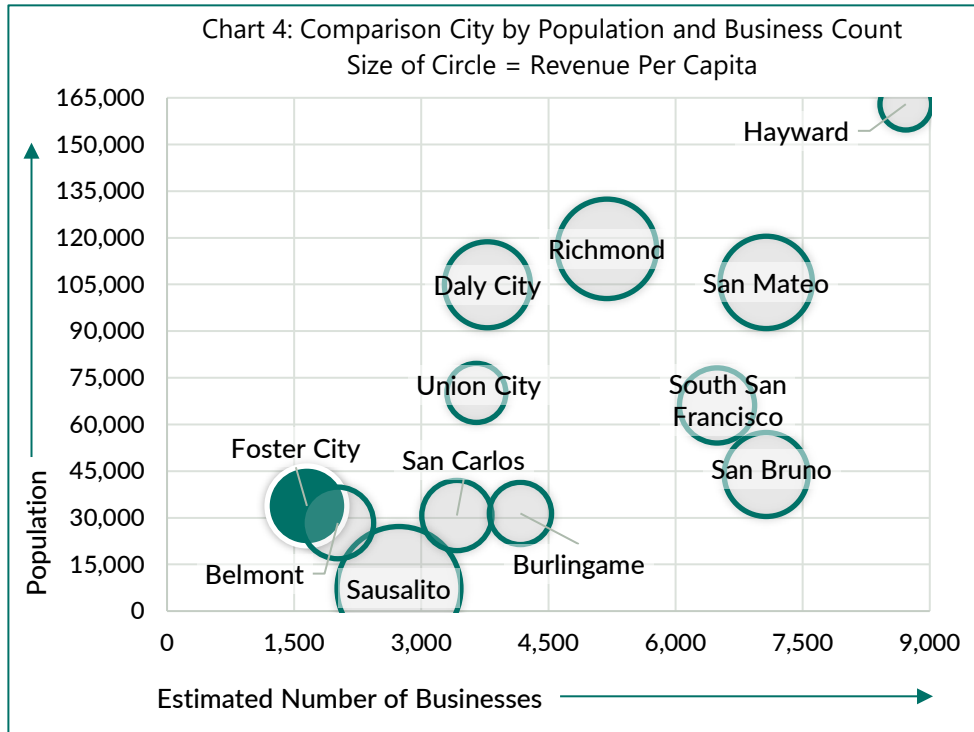

Chart 4: Comparison City by Population and Business Count
Size of Circle = Revenue Per Capita

Table 3:
Revenue Per Capita Comparison

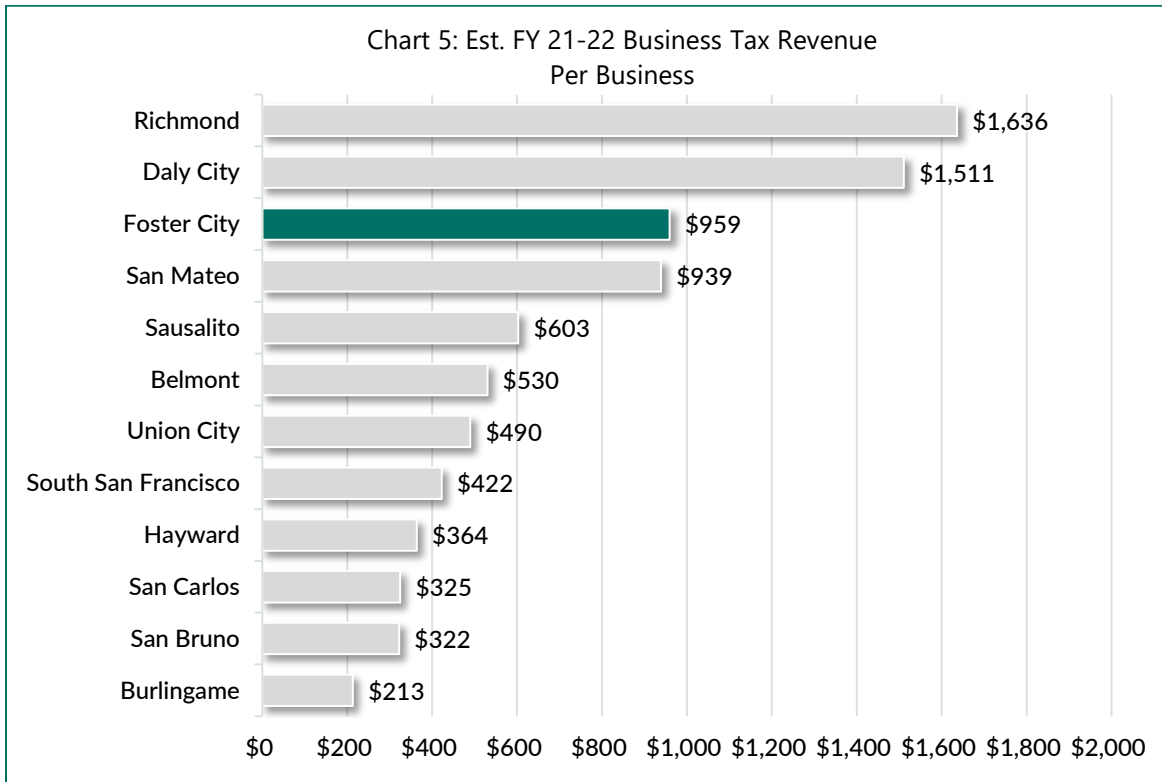| City	Revenue Per Capita
Sausalito[8]	$226.96
Richmond	$72.92
San Mateo	$62.83
Daly City	$54.44
San Bruno	$51.88
Foster City	$46.85
South San Francisco	$41.47
Belmont	$37.70
San Carlos	$36.16
Burlingame	$28.35
Union City	$25.49
Hayward	$19.46

Foster City has an effective tax gross receipt rate of $0.75 per thousand. Despite this favorable structure, the City's cap means that not all of the gross receipts from large businesses in the City contribute to the total revenue. The City has several businesses that generate very large amounts of reported gross receipts. Our initial analysis indicates that this cap is the major reason Foster City's tax structure is less productive per capita than some other cities with a gross receipts structure.

Please note that Richmond passed a new measure in 2020 to go to a progressive gross receipts model (Measure U). The tax rates range from 0.075% to 1.395% of gross receipts.

Other interesting comparisons are Daly City and San Mateo. Daly City's tax structure is $1.10 per thousand dollars with a $100 minimum, while a portion of San Mateo's businesses pay about $.57 per $1,000 (for gross receipts over $100,000.) Both outproduce Foster City per capita.

Please note that we included Sausalito, not because it is similar to Foster City but because it adopted a change to its gross-receipts structure in 2019 that provides an instructive comparison.

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[8] Sausalito's per capita representation in Chart 4 was reduced so that proportions aren't significant skewed and interfere with the cities' space relationship in the chart.

Chart 5: Est. FY 21-22 Business Tax Revenue Per Business

City	Value
Richmond	$1,636
Daly City	$1,511
Foster City	$959
San Mateo	$939
Sausalito	$603
Belmont	$530
Union City	$490
South San Francisco	$422
Hayward	$364
San Carlos	$325
San Bruno	$322
Burlingame	$213

When we account for the number of businesses in each City (by dividing revenues by the number of businesses), which yields a per-business measure of the tax, Foster City is in the top three cities in the comparison set for generating business license tax per business. Nevertheless, Richmond and Daly City also show that this category may have room for growth.

On the following page, we compare the tax from certain hypothetical businesses across these cities to show how the differing tax structures would produce different revenues.

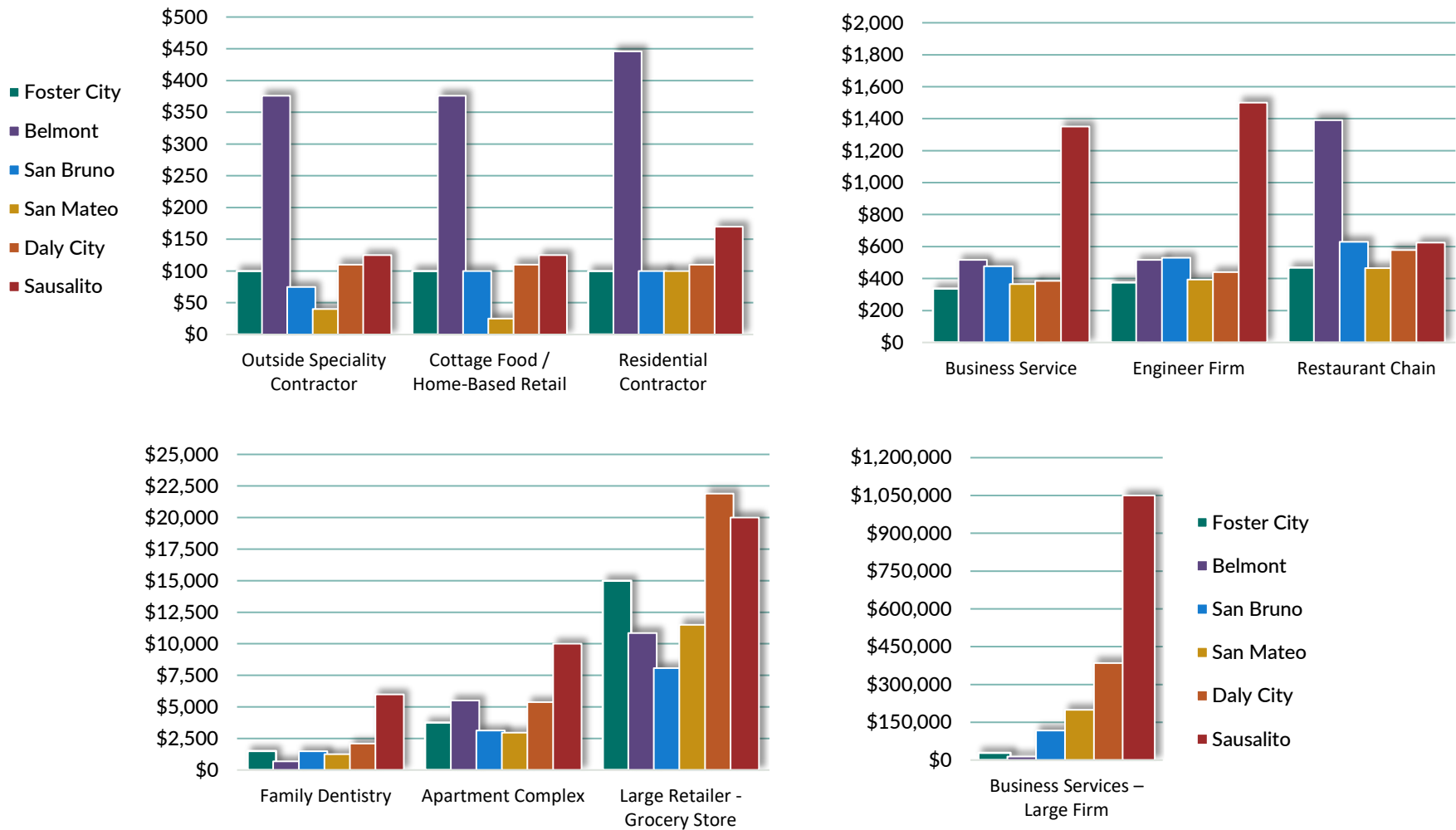# Current Rate Comparison – Foster City vs. Neighbors

Tables 4A & 4B: Current Rate Comparison Based on Sample Businesses

Sample Business	Gross Receipts/ Employee/Units	Foster City	Belmont	Burlingame	Daly City	Hayward	Richmond
Outside Sub-Contractor	$6,000 / 1 Emp	$100	$376	$200	$110	$53	$11
Home-Based Cottage Food / Retail	$22,000 / 1 Emp	$100	$376	$200	$110	$16	$26
General Contractor - Remodeling	$85,000 / 3 Emp	$200	$446	$200	$110	$53	$153
Business Service	$450,000 / 5 Emp	$338	$516	$300	$385	$120	$810
Engineering Firm	$500,000 / 5 Emp	$375	$516	$300	$440	$632	$1,550
Restaurant Chain	$625,000 / 50 Emp	$469	$1,391	$300	$578	$167	$750
Family Dentistry	$2,000,000 / 10 Emp	$1,500	$691	$750	$2,090	$2,627	$7,700
Apartment Complex	$5,000,000 / 20 Emp / 150 Units	$3,750	$5,500	$750	$5,390	Repealed	$144,000
Large Retailer - Grocery Store	$20,000,000 / 300 Emp	$15,000	$10,841	$750	$21,890	$5,399	$24,850
Business Services – Large Firm	$350,000,000 / 400 Emp	$28,597	$14,341	$750	$384,890	$94,499	$1,831,850
		$50,429	$34,994	$4,500	$415,993	$103,566	$2,011,700

Sample Business	Gross Receipts/ Employee/Units	Foster City	San Bruno	San Carlos	San Mateo	Sausalito	Union City
Outside Sub-Contractor	$6,000 / 1 Emp	$100	$75	$253	$40	$125	$167
Home-Based Cottage Food / Retail	$22,000 / 1 Emp	$100	$100	$253	$25	$125	$167
General Contractor - Remodeling	$85,000 / 3 Emp	$200	$100	$253	$100	$170	$340
Business Service	$450,000 / 5 Emp	$338	$478	$271	$366	$1,350	$194
Engineering Firm	$500,000 / 5 Emp	$375	$530	$321	$394	$1,500	$279
Restaurant Chain	$625,000 / 50 Emp	$469	$630	$966	$466	$625	$269
Family Dentistry	$2,000,000 / 10 Emp	$1,500	$1,480	$446	$1,249	$6,000	$279
Apartment Complex	$5,000,000 / 20 Emp / 150 Units	$3,750	$3,130	$796	$2,959	$10,000	$2,150
Large Retailer – Grocery Store	$20,000,000 / 300 Emp	$15,000	$8,080	$3,055	$11,509	$20,000	$8,600
Business Services – Large Firm	$350,000,000 / 400 Emp	$28,597	$116,980	$3,055	$199,609	$1,050,000	$150,500
		$50,429	$131,583	$9,669	$216,717	$1,089,895	$162,945

Current Rate Comparison – Sample Businesses Tax Revenue Chart Comparison
(Selected Cities)

Chart 6A - D: Current Rate Chart Comparison (Neighboring Jurisdictions)[9]

[9] See Appendix B for the logic behind our comparison selection.

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SECTION 2 – Category & Tax Analysis

The City requested that HdL conduct an analysis of its business license tax structures and explore options for modifying their rates and categories. In Section 1, we summarized the City's tax structure and compared the City to select jurisdictions in the state to walk through the importance and value an effective tax code brings to one's community. This section provides options for modifying the City's business tax rates and classifications. Using the City's data compiled in section 1, we developed five models and estimated the fiscal impact of each.

The models include increasing the City's existing maximum tax (cap), reducing the existing minimum tax, assigning gross receipts rates by business category, creating a gross receipt scale to allow the removal of the existing cap, or switching to a different tax base structure. This section focuses on providing models that could improve the tax structure and administrative efficiency while enhancing revenue. With each model, we discuss some of the benefits and impacts while illustrating their alignment with the City's goals.

Tax Model Revenue

Model 1 is an increase on the current cap without changing the existing tax rate.

Model 2 increases revenue by using a more effective gross receipt tax rate and would be simple to administer since it is a single tax rate.

Model 3 focuses on flexibility by structuring the rates for business industries or categories in a way that considers other revenue contributions to the City, like sales tax and property tax. Model 3 has the capacity to be highly customizable to meet the needs of the City.

Model 4 demonstrates how the city can increase revenue, adjust their current cap, and impose a lower tax amount on smaller businesses through the use of a gross receipts scale that imposes a gross receipt rate that, while regressive, would capture more of the taxable activity.

Model 5 illustrates a possible shift to an employee tax base, which would remove the cap on large businesses without as much dependence on large revenue payments from these large businesses.

Note: The City's tax limit on the number of multiple corporate entities was not included in HdL's proposed tax models because we do not see how the exemption benefits the City's tax structure.

Gross Receipts Tax – Estimates

Many California jurisdictions use some form of gross receipts tax structure for their business license tax. Many of those jurisdictions use a standard rate multiplier to determine the tax amount owed or by setting the rate for each business category. For example, a city might charge $1 per thousand dollars of gross receipts (0.001 x Gross) for a retail business while charging a rate of $3.00 per thousand dollars of gross receipts (0.003 x Gross) for service or professional businesses.

The benefits of gross-receipts-based taxes are the ease of calculation and the potential for capturing revenue from economic growth. The drawbacks are that it exposes City revenues to fluctuations in gross receipts in the economy and may concentrate revenue in the highest-grossing businesses.

A note on our estimate of total taxable gross receipts
Given the cap in the City and the large amounts of gross receipts some businesses report to the City, there is a chance that some of the gross receipts may be inadvertently overreported. Because of that chance, we reduced the estimated gross receipts for those businesses over the cap with a discount factor. For example, for any business reporting gross receipts greater than or equal to $100 million, we discounted the gross receipts by 95%. All other businesses are discounted by 20% to account for fluctuations in gross receipts generated in the City and other uncertainties in the modeling.

Because we adjusted the gross receipts, we also recalculated the tax paid based on the adjusted gross receipts to show what the City would receive under its current structure with these adjustments for uncertainty in the model.

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

Table 7: Key Estimates Used In The Gross Receipts Models

Number of Businesses	Estimated Total Taxable Gross Receipts	Adjusted City Annual Business Tax Revenue	Total Est. Taxable Number of Employees
1,651	$4.48 Billion	$1,394,000	29,957

All models presented below should be considered as 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.

Model 1: Existing Categories with Simple Increases

The City may elect to retain the existing structure while modifying the tax cap. The categories in the table below group businesses that are paying the minimum tax, gross receipts, or maximum amounts *based on the current structure.* This grouping is intended to help us, at a summary level, see how many businesses pay the minimum tax (or on gross receipt, or the cap), and how much the untaxed gross receipts might be. It also helps illustrate how increasing the cap increases the business license tax revenue.

Table 6: Estimated Revenue From Raising the City's Tax Cap

Category	Number of Businesses	Estimated Gross Receipt	Current Rate Cap at $28,597	Model 1A: Cap at $100,000	Model 1B: Cap at $500,000	Model 1C: Cap at $1,000,000
Minimum Tax	1,179	$30,480,000	$155,000	$155,000	$155,000	$155,000
Gross Receipts Tax	453	$1,063,306,000	$798,000	$798,000	$798,000	$798,000
Maximum Tax	19	$3,383,682,000	$441,000	$817,000	$1,769,000	$2,413,000
Total Revenue	1,651	$4,477,468,000	$1,394,000	$1,770,000	$2,722,000	$3,366,000

Model 1 - Highlights and Impact Review

As indicated in the model above, a simple increase to the business license tax cap could keep the existing structures in place while yielding higher revenues to the City.

The drawback of Model 1 is that simply increasing the business license cap rate increases the effective rate for the City's largest business but it also makes the revenues more dependent on the largest businesses. And, instead of being a more general tax modernization, it focuses only on the largest businesses.

Model 2: Gross Receipts Tax – Single Gross Receipts Rate

Model 2 reflects the potential revenues raised from changing the existing single-rate gross-receipts model to a more effective tax rate. This model retains administrative simplicity—everyone is charged the same rate—but it still allows the City to increase revenue. Model 2 also lowers the annual minimum rate to a uniform $25 to provide some tax relief for very small businesses when compared to the City's current structure.

Table 7: Model 2—Potential Tax Structure

Tax Basis	Tax Rate
Minimum Tax	$25 flat rate (First $25,000 in Gross Receipts)
Gross Receipts Tax	+ $1.25 per thousand dollars of Gross Receipts (0.001 x Gross Receipts)
Maximum Tax	Shall not exceed $1,000,000 in tax.

Model 2 Estimates Table

The table below illustrates the potential revenues from implementing a gross receipts tax with two options: $1.25 per thousand and $1.50 per thousand. While these figures should not be solely relied upon for precise budgeting purposes, they can be useful for understanding revenue trends, making informed assessments, and comprehending the potential implications and outcomes associated with this model.

Table 8: Model 2 – Estimates From A Simple Gross Receipts Structure

Category	Number of Businesses	Taxable Gross Receipts	Tax from Current Rate	Model 2A $1.25 / Thousand	Model 2B $1.50 / Thousand
Minimum Tax	787	$5,578,000	$101,000	$20,000	$20,000
Gross Receipts Tax	860	$1,695,172,000	$1,179,000	$2,113,000	$2,532,000
Maximum Tax	4	$2,776,718,000	$114,000	$2,524,000	$2,628,000
Total Revenue	1,651	$4,477,468,000	$1,394,000	$4,657,000	$5,180,000

Model 2 – Highlights and Impact Review

The "single rate" method of taxing on gross receipts provides an even distribution of the effective tax rate. All businesses subject to the tax will pay the same rate. This model implements $1,000,000 maximum tax so only a few businesses would reach the gross receipts limits. This allows the City to get closer to total taxation of gross receipts generated in the City. For example, large businesses, which generate over $1,000,000 in gross receipts and make up 97% of the gross receipts in the City, contribute to approximately 96% of total revenue in the $1.25-per-thousand model. Model 2 expands revenue while keeping the tax structure simple and easy to understand for businesses while asking larger businesses to pay a proportionally equivalent share. This model would raise the tax rate for mid-sized businesses and would lower the tax rate for those paying the minimum tax.

Model 3: Gross Receipts Tax – Classification-Based Rates

Model 3, as indicated below, would create different rates for different business classifications. As mentioned, the City might choose to implement a rate for the retail and wholesale business activities that recognize the higher costs of goods sold, lower profit margins, and their contribution to other City revenues such as collecting and remitting sales tax. At the same time, the City could consider implementing a higher rate for professionals due to the nature of their business model. This model offers the most flexibility for increasing revenues while accommodating certain business categories.

We have tailored Model 3 to provide a revenue increase and to focus on shifting more of the tax to property rentals and professional services.

Tax Structure and Estimated Revenue

Model 3 is one example of how the City might utilize a gross receipt model to improve flexibility and increase revenue. Should the City decide to use a gross receipts model like model 3, HdL will work with City staff to finalize a structure that best serves the City's goals. We define these categories and provide summary statistics in Appendix A. It is important to remember that, like Model 2, 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 9: Basic Tax Structure For Classification-Based Gross Receipts

Categories	Minimum Rate	Tax Rate 3A	Tax Rate 3B	Maximum Tax
Contractor	$25 Flat Rate (First $25,000 Gross)	$2 / Thousand X Gross	$3 / Thousand X Gross	Shall not exceed $1,000,000 in tax.
General		$1 / Thousand X Gross	$1 / Thousand X Gross	
Professional		$2 / Thousand X Gross	$3 / Thousand X Gross	
Rental - Commercial		$3 / Thousand X Gross	$2 / Thousand X Gross	
Rental - Residential		$3 / Thousand X Gross	$2 / Thousand X Gross	
Service		$2 / Thousand X Gross	$3 / Thousand X Gross	

Table 10: Estimated Revenue From Classification-Based Gross Receipts

Business Type	Number of Businesses	Est. Taxable Gross Receipts	Current Taxes	Est. Annual Gross Receipts Tax Model 3A	Est. Annual Gross Receipts Tax Model 3B
Contractor	864	$265,472,000	$295,000	$526,000	$779,000
General	164	$371,030,000	$244,000	$372,000	$372,000
Professional	121	$1,768,572,000	$200,000	$1,536,000	$1,802,000
Rental - Commercial	10	$23,999,000	$18,000	$72,000	$48,000
Rental - Residential	28	$182,859,000	$134,000	$547,000	$365,000
Service	464	$1,865,536,000	$503,000	$3,012,000	$4,001,000
	1,651	$4,477,468,000	$1,394,000	$6,065,000	$7,367,000

This model spreads the tax burden across multiple business types. The model retains most of the administrative efficiencies of model 2 by having a simple structure of just six categories. Additionally, it could increase revenue by over 430% in Model 3A.

Model 4: Tiered Gross Receipts Options

This model attempts to mitigate the severity of regressivity in the City's business license tax structure with a gross receipts measure that increases the share that large businesses pay and provides lower taxes for small businesses. The model removes or increases the cap, creates a lower minimum, and uses different tax structures to test different configurations of the tiered approach.

Table 11A: Estimated Revenue From a Regressive[10] Gross Receipt Scale – Model 4A

Measure Index	Gross Receipts Range	Measure Base Tax	Gross Receipt Rate	Number of Businesses	Model 4A Revenue
1	$0.00 to $25,000	$25.00	Minimum	787	$20,000
2	$25,000 to $100,000	$25.00	+$1.50 per $1,000	344	$23,000
3	$100,000 to $1,000,000	$138.50	+$1.25 per $1,000	326	$144,000
4	$1,000,000 to $10,000,000	$1,262.50	+$1.00 per $1,000	150	$539,000
5	$10,000,000 to $100,000,000	$10,262.50	+$0.75 per $1,000	41	$974,000
6	$100,000,000 to $1,000,000,000	$77,762.50	+$0.50 per $1,000	2	$653,000
7	Gross Receipt Over $1,000,000,000	$527,762.50	+$0.25 per $1,000	1	$653,000
				1,651	$3,006,000

Table 11B: Estimated Revenue From a Progressive[11] Gross Receipt Scale (With Cap) – Model 4B

Measure Index	Gross Receipts Range	Measure Base Tax	Gross Receipt Rate	Number of Businesses	Model 4B Revenue
1	$0 to $100,000	$25	Minimum	1,131	$28,000
2	$100,000 to $1,000,000	$25	+$0.50 per $1,000	326	$48,000
3	$1,000,000 to $10,000,000	$1,825	+$1.00 per $1,000	150	$420,000
4	$10,000,000 to $100,000,000	$15,325	+$1.50 per $1,000	41	$1,495,000
5	Gross Receipts Over $100,000,000	$105,325	+$2.00 per $1,000 (Max $250,000)	3	$750,000
				1,651	$2,741,000

[10] A regressive tax rate is one where the rate decreases the more gross receipts increase. Regressive tax rates cause a business' average Business License Tax burden to decrease as higher taxable gross receipts are reported. In other words, businesses that report lower taxable gross receipts pay a disproportionate share of the Business License Tax burden when compared to larger businesses.

[11] A progressive business license (gross receipts) tax involves a tax rate that increases (or progresses) as taxable gross receipts increase. It imposes a lower tax rate on businesses that report lower taxable gross receipts and a higher tax rate on those businesses that report higher taxable gross receipts. A progressive business license (gross receipts) tax is usually achieved by creating tiered business license (gross receipts) tax rate that group businesses into various tiers with varying tax rates based on taxable gross receipts that they report.

Table 11C: Estimated Revenue From a Regressive Gross Receipt Scale (With Cap) – Model 4C

Measure Index	Gross Receipts Range	Measure Base Tax	Gross Receipt Rate	Number of Businesses	Model 4C Revenue
1	$0 to $100,000	$25	Minimum	1,131	$28,000
2	$100,000 to $1,000,000	$25	+$2.00 per $1,000	326	$167,000
3	$1,000,000 to $10,000,000	$1,825	+$1.50 per $1,000	150	$797,000
4	$10,000,000 to $100,000,000	$15,325	+$1.00 per $1,000	41	$1,366,000
5	Gross Receipts Over $100,000,000	$105,325	+$0.50 per $1,000 (Max $250,000)	3	$724,000
				1,651	$3,082,000

Model 4 - Highlights and Impact Review

Businesses making less than $100,000 pay less tax because of the decreased minimum tax. Overall, the number of businesses that would see an increase in tax owed is less than 30% of businesses, and this option almost doubles the City's business license tax revenue.

Model 5: Uniform Employee Tax Rate

If the City were to decide to switch the tax base away from a gross receipt model, an alternative tax structure would be a uniform employee tax rate.

This model is simple – allows the City to implement a structure without a cap. Unlike gross receipts, Citywide employee count may have less volatility—although the rise in remote or hybrid work could increase volatility and reduce the usefulness of this measure of the tax.

We based this model on actual employee data, where that was available in the City-provided data. Where actuals were not available, we estimated them as follows. We took the mean of the number of employees by businesses in the same business category and gross receipts range. If gross receipts were less than $25,000 and no employee was provided, we reported one employee in the model.

Table 12: Basic Tax Structure For Classification-Based Employee

Tax Basis	Tax Rate
Minimum Tax	$150 flat rate (Covers the First Employee)
Employee Tax	$50 per Employee

Table 13: Estimates From A Uniform Employee Tax

Number of Businesses	Number of Employees	Total Minimum Tax: ($150 per business)	Employee Tax: $50 per Employee after 1	Total Est. Employee Tax Revenue
1,651	29,957	$248,000	$1,415,000	$1,663,000

Model 5 – Highlights and Impact Review

This model is a useful comparison to the gross-receipts models. It would produce about the same amount of revenue as the current model.

On a side note, we did initially discuss a square-footage model but the data was hard to obtain and the model would have the side-effect of only taxing businesses with an office in the City, thus giving an advantage to businesses that come in from outside the City to do business.
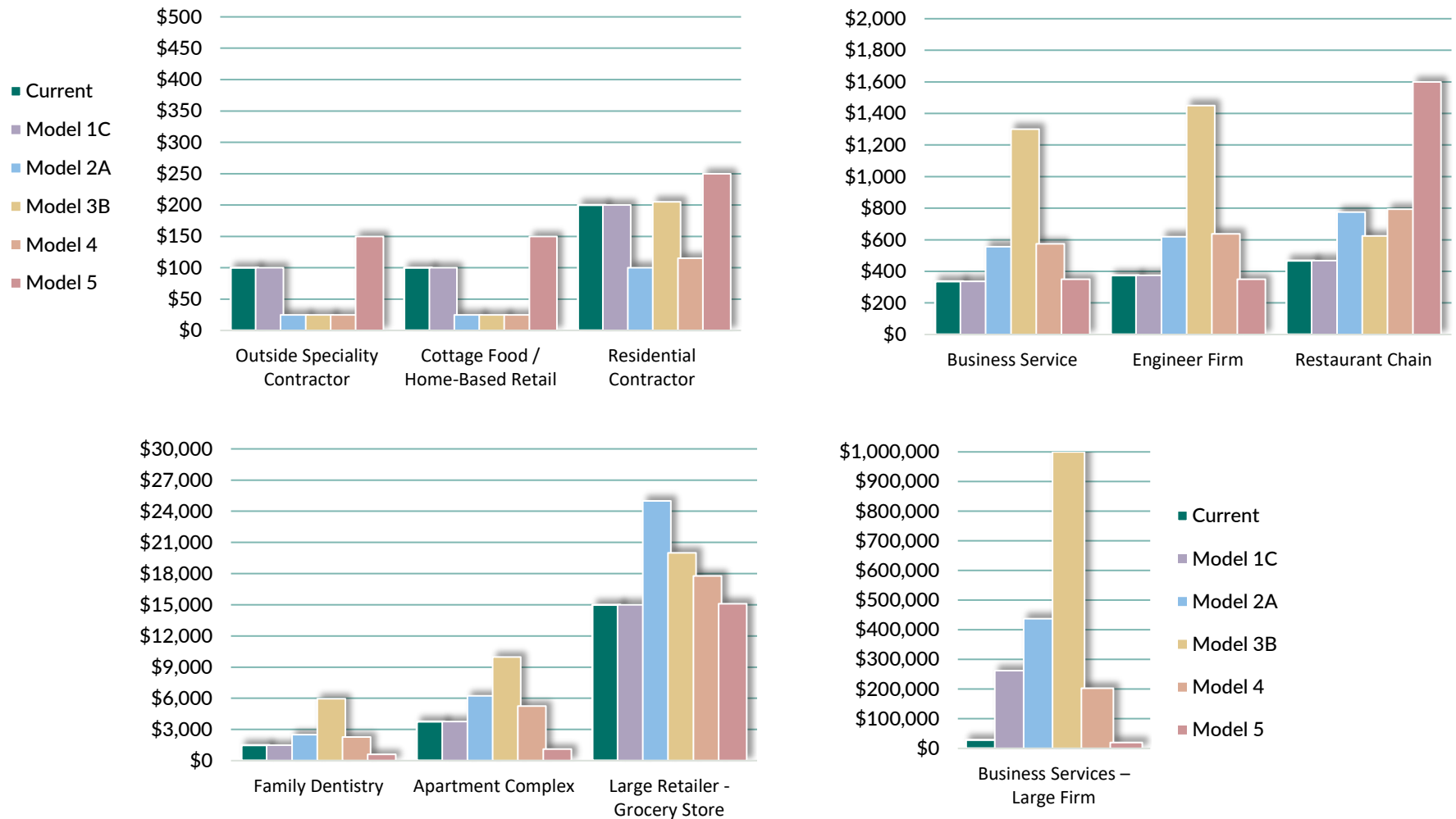
Proposed Rates Comparisons

Table 14A & B: Comparing Gross-Receipt Models By Hypothetical Business Type

Sample Business	Gross Receipts/ Employee/Units	Current Rate	Raised Cap to $100,000	Raised Cap to $500,000	Raised Cap To $1,000,000	Model 2A: $1.25/$1,000	Model 2B: $1.50/$1,000
Outside Sub-Contractor	$6,000 / 1 Emp	$100	$100	$100	$100	$25	$25
Home-Based Cottage Food / Retail	$22,000 / 1 Emp	$100	$100	$100	$100	$25	$25
General Contractor - Remodeling	$85,000 / 3 Emp	$200	$200	$200	$200	$100	$115
Business Service	$450,000 / 5 Emp	$338	$338	$338	$338	$556	$663
Engineering Firm	$500,000 / 5 Emp	$375	$375	$375	$375	$619	$738
Restaurant Chain	$625,000 / 50 Emp	$469	$469	$469	$469	$775	$925
Family Dentistry	$2,000,000 / 10 Emp	$1,500	$1,500	$1,500	$1,500	$2,494	$2,988
Apartment Complex	$5,000,000 / 20 Emp / 150 Units	$3,750	$3,750	$3,750	$3,750	$6,244	$7,488
Large Retailer - Grocery Store	$20,000,000 / 300 Emp	$15,000	$15,000	$15,000	$15,000	$24,994	$29,988
Business Services - Large Firm	$350,000,000 / 400 Emp	$28,597	$100,000	$262,500	$262,500	$437,494	$524,988
		$50,429	$121,832	$284,332	$284,332	$473,326	$567,943

Sample Business	Gross Receipts/ Employee/Units	Current Rate	Model 3A: GR by Category	Model 3B: GR by Category	Model 4a: Gross Receipt by Scale	Model 5: Employee Tax
Outside Sub-Contractor	$6,000 / 1 Emp	$100	$25	$25	$25	$150
Home-Based Cottage Food / Retail	$22,000 / 1 Emp	$100	$25	$25	$25	$150
General Contractor - Remodeling	$85,000 / 3 Emp	$200	$145	$205	$115	$250
Business Service	$450,000 / 5 Emp	$338	$875	$1,300	$575	$350
Engineering Firm	$500,000 / 5 Emp	$375	$975	$1,450	$638	$350
Restaurant Chain	$625,000 / 50 Emp	$469	$625	$625	$794	$1,600
Family Dentistry	$2,000,000 / 10 Emp	$1,500	$3,975	$5,950	$2,263	$600
Apartment Complex	$5,000,000 / 20 Emp / 150 Units	$3,750	$14,950	$9,975	$5,263	$1,100
Large Retailer - Grocery Store	$20,000,000 / 300 Emp	$15,000	$20,000	$20,000	$17,763	$15,100
Business Services – Large Firm	$350,000,000 / 400 Emp	$28,597	$699,975	$1,000,000	$202,763	$20,100
		$50,429	$741,570	$1,039,555	$230,224	$39,750

Current Rate Comparison – Hypothetical Businesses (Models)
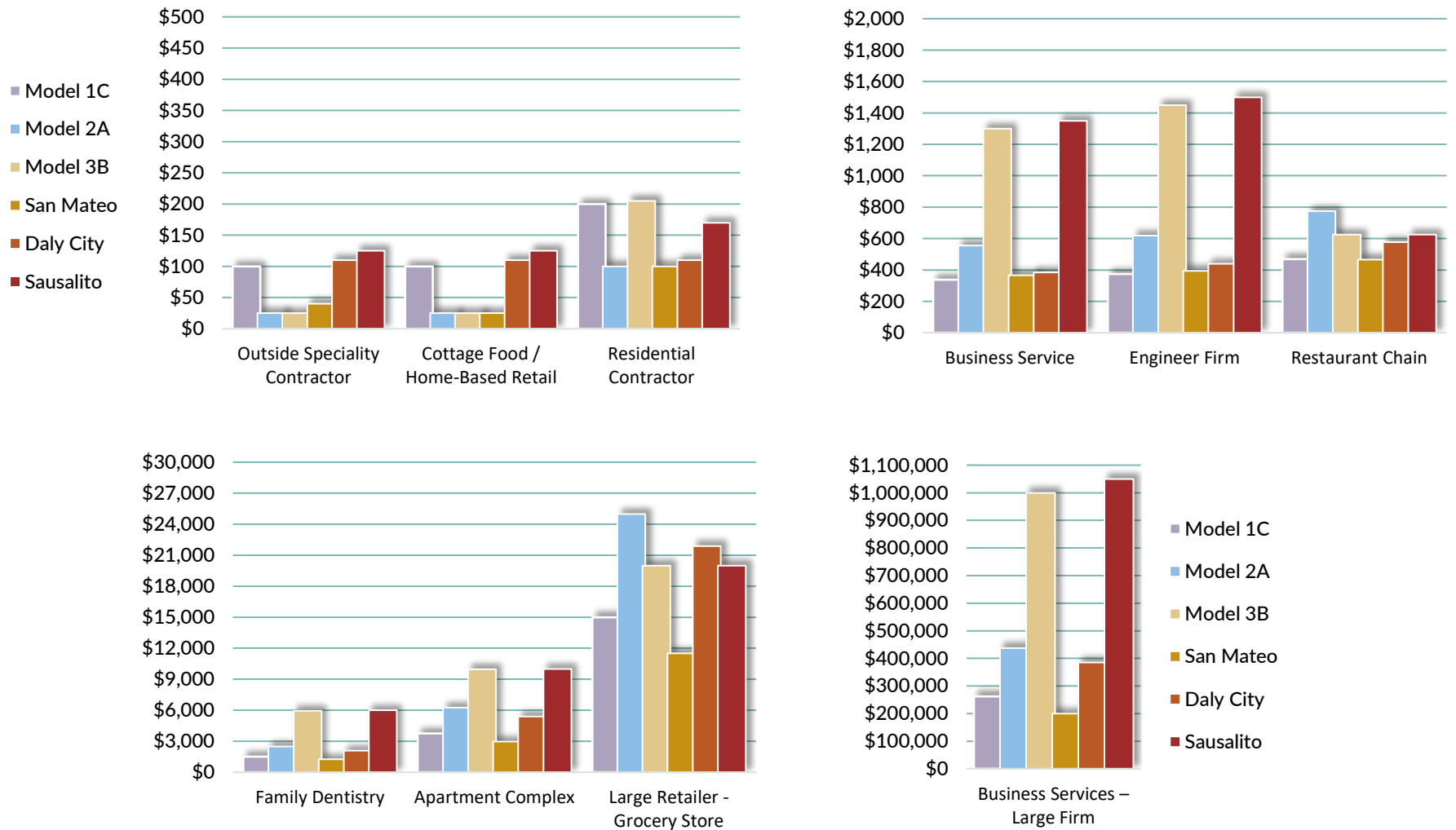
Chart 11A - D: Current & Model Rate Comparison Charts[12]

[12] See Appendix B for the logic behind our comparison selection.

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Current Rate Comparison – Hypothetical Businesses (Neighbors and Models)
(Select Cities)

Chart 12A - D: Models and Jurisdiction Comparison Charts[13]

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[13] See Appendix B for the logic behind our comparison selection.

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Appendix A - License Classification and Rate Types

In Model 3, we use six basic categories of businesses. These are six basic structures that are common across municipalities. The definitions below are general and not meant to be the complete definitions that would appear in a municipal code. We list both rental categories together below.

Contractors: These are persons or firms that are carrying on the business of a contractor, subcontractor, or builder, particularly the construction or repair of any buildings. Examples include but are not limited to construction, plumbing, HVAC, etc.

General Commerce/Retail: These are retailers, wholesalers, hoteliers, restaurateurs, manufacturers, and warehousing. All these businesses are likely to contribute to your tax base in other ways (i.e., property tax and sales tax) and often have lower profit margins.

Rental (Commercial & Residential): This category includes any business that leases, rents, or provides use of real property to another individual or entity for compensation. Examples include but are not limited to commercial leasing, residential rental, parcel leasing, etc. This would also be a category where the City could include language and rates for taxing short-term rentals.

Service: This sector offers services that require minimal to no higher education or training. This is also the default category for any business that is not specifically defined in one of the other five categories. Examples include but are not limited to hair stylists, gardeners, nail salons, etc.

Professional: These businesses offer services that require a rigorous amount of training through any type of higher education or vocational institutions that exclusively certify the complete obtainment of skills and the ability to offer such professional services. Examples include but are not limited to a doctor's office, a law office, a consulting firm, research and development, etc.

Please note that in the table below, we have excluded the non-profit businesses along with the "revenue" attributable to their fees to give a clearer picture of the tax revenue-producing businesses in the City.

Approximate Grouping Of City's Businesses By The Proposed Categories

Business Category Type	Total Count	Total Current Taxes
Contractor	864	$295,000
General	164	$244,000
Professional	121	$200,000
Rental - Commercial	10	$18,000
Rental - Residential	28	$134,000
Service	464	$503,000
Totals	**1,651**	**$1,394,000**

Appendix B - Comparison Charts Logic

Comparison Cities in Charts 6A-D

1. Belmont – Southern neighboring City with an employee base tax with a high flat base rate.
2. San Bruno – Utilizes a gross receipts rate which makes it slightly more per capita than Foster City.
3. San Mateo – Western neighboring City with a gross receipts rate that is $0.57 and produces more per capita.
4. Daly City – Has a single rate gross receipts of $1.10 tax structure without a business tax cap.
5. Sausalito – Uses a multiple business category tax structure without a cap.

Note: Richmond was considered because it adopted a progressive business tax structure. However, the high rates make it difficult to include visualizations with a group with diverse revenue models.

Model Comparison in Charts 11A-D

1. Model 1C - demonstrates the greatest potential of increasing business tax revenue without removing the business license tax cap and retaining the existing business tax structure.
2. Model 2A – demonstrates the impact of decreasing the minimum tax to $25, providing businesses with a $25,000 gross receipt credit, raising the effective tax rate by $0.50, and raising the cap.
3. Model 3B – demonstrates the benefits of business tax by category at an effective tax rate of $1 - $3 per thousand. Under this model, the $1 million cap would be used.
4. Model 4 – illustrates how smaller businesses would still have a reduced tax payment even with an effective rate of double the current rate, and the cap could be removed if the City used a controlled regressive gross receipt measure.
5. Model 5 shows the impact on businesses if the City changes the tax basis from gross receipts to employees.

Models and Cities Comparisons Charts 12A-D

1. San Mateo – can be compared to Model 1C to show whether Foster City could take advantage of its more effective tax with a cap increase.
2. Daly City – This is another example of model 2 at a rate of $1.10 per thousand with a base rate of $110 and no cap.
3. Sausalito – Uses a tax structure based on Model 3 that they adopted in 2018, but they did not impose a cap and have the advantage of capturing all gross receipts generated in the City.

Appendix C – Model 4X and 4Y

In this section, we provide four variations of models for the city of Foster City, which explore a progressive gross receipt structure with a minimum tax and a maximum tax. Businesses in both models will pay $100 for the first $250,000 of gross receipts. Businesses making an excess of $25 million will pay on gross receipts until they reach the maximum tax imposed by the City ($250,000 or $500,000).

Table 15: Gross Receipts $1.25 to $3.00 with $250K Cap (Model 4X-1)

Measure Index	Gross Receipts Range	Gross Receipt Rate	Minimum Tax	Number of Businesses	Model 4X-1 Revenue
1	$0 to $250,000	$0.00	$100.00	1,287	$128,700
2	$250,000 to $4,400,000	+$1.25 per $1,000	$100.00	276	$324,366
3	$4,400,000 to $8,500,000	+$1.54 per $1,000	$5,287.50	39	$299,118
4	$8,500,000 to $12,650,000	+$1.83 per $1,000	$11,608.33	14	$220,531
5	$12,650,000 to $16,750,000	+$2.13 per $1,000	$19,216.67	11	$257,834
6	$16,750,000 to $20,900,000	+$2.42 per $1,000	$27,929.17	3	$91,134
7	$20,900,000 to $25,000,000	+$2.71 per $1,000	$37,958.33	1	$44,047
8	Gross Receipts Over $25,000,000	+$3.00 per $1,000 (Max $250,000)	$49,062.50	20	$2,728,446
				1,651	$4,094,176

Table 16: Gross Receipts $0.75 to $3.00 with $250K Cap (Model 4X-2)

Measure Index	Gross Receipts Range	Gross Receipt Rate	Minimum Tax	Number of Businesses	Model 4X -2 Revenue
1	$0 to $250,000	$0.00	$100	1,287	$128,700
2	$250,000 to $4,400,000	+$0.75 per $1,000	$100	276	$205,660
3	$4,400,000 to $8,500,000	+$0.88 per $1,000	$3,213	39	$178,018
4	$8,500,000 to $12,650,000	+$1.00 per $1,000	$6,800	14	$126,844
5	$12,650,000 to $16,750,000	+$1.13 per $1,000	$10,950	11	$145,041
6	$16,750,000 to $20,900,000	+$1.25 per $1,000	$15,563	3	$50,488
7	$20,900,000 to $25,000,000	+$1.38 per $1,000	$20,750	1	$23,841
8	Gross Receipts Over $25,000,000	+$3.00 per $1,000 (Max $250,000)	$26,388	20	$2,342,971
				1,651	$3,201,563

Table 17: Gross Receipts $1.25 to $3.50 with $500K Cap (Model 4Y-1)

Measure Index	Gross Receipts Range	Gross Receipt Rate	Minimum Tax	Number of Businesses	Model 4Y-1 Revenue
1	$0 to $250,000	$0.00	$100	1,287	$128,700
2	$250,000 to $4,400,000	+$1.25 per $1,000	$100	276	$324,366
3	$4,400,000 to $8,500,000	+$1.50 per $1,000	$5,288	39	$296,607
4	$8,500,000 to $12,650,000	+$1.75 per $1,000	$11,438	14	$215,502
5	$12,650,000 to $16,750,000	+$2.00 per $1,000	$18,700	11	$249,418
6	$16,750,000 to $20,900,000	+$2.25 per $1,000	$26,900	3	$87,540
7	$20,900,000 to $25,000,000	+$2.50 per $1,000	$36,238	1	$41,858
8	Gross Receipts Over $25,000,000	+$3.50 per $1,000 (Max $500,000)	$46,488	20	$3,625,401
				1,651	$4,969,392

Table 18: Gross Receipts $.75 to $3.50 with $500K Cap (Model 4Y-2)

Measure Index	Gross Receipts Range	Gross Receipt Rate	Minimum Tax	Number of Businesses	Model 4Y-2 Revenue
1	$0 to $250,000	$0.00	$100.00	1,287	$128,700
2	$250,000 to $4,400,000	$0.75 per $1,000	$100.00	276	$205,660
3	$4,400,000 to $8,500,000	$1.21 per $1,000	$3,212.50	39	$198,105
4	$8,500,000 to $12,650,000	$1.67 per $1,000	$8,166.67	14	$167,073
5	$12,650,000 to $16,750,000	$2.13 per $1,000	$15,083.33	11	$212,367
6	$16,750,000 to $20,900,000	$2.58 per $1,000	$23,795.83	3	$79,241
7	$20,900,000 to $25,000,000	$3.04 per $1,000	$34,516.67	1	$41,354
8	Gross Receipts Over $25,000,000	$3.50 per $1,000 (Max $500,000)	$46,987.50	20	$3,633,901
				1,651	$4,666,401

Table 19: Overall Gross Receipts Taxed Per Model and Tax Cap

Categories	4X-1 - $250K	4X-2 - $250K	4Y-1 - $500K	4Y-2 - $500K
Model Maximum Tax Limit	$250,000	$250,000	$500,000	$500,000
Taxable Gross Receipt of the 1st 7 Tiers	$25,000,000	$25,000,000	$25,000,000	$25,000,000
Gross Receipt Taxed at Final Tier	$66,979,167	$74,537,500	$129,575,000	$129,432,143
Total Gross Receipt Taxed	**$91,979,167**	**$99,537,500**	**$154,575,000**	**$154,432,143**
Estimated Additional Revenue for the model	**$2.36 million**	**$1.46 million**	**$3.23 million**	**$2.93 million**

On the following page, we compare Model 4X and Model 4Y to the existing structure and to the comparison cities.

Tables 20A - C: Current Rate Comparison Based on Sample Businesses

Sample Business	Gross Receipts/ Employee/Units	Foster City	Model 4X-1 $250k	Model 4X-2 $250K	Model 4Y-1 $500K	Model 4Y-2 $500K	Belmont	Burlingame	Daly City
Restaurant Chain	$625,000 / 50 Emp	$469	$569	$381	$569	$381	$1,391	$300	$578
Large Retailer - Grocery Store	$20,000,000 / 300 Emp	$15,000	$31,992	$19,625	$34,213	$32,192	$10,841	$750	$21,890
Business Services – Large Firm	$350,000,000 / 400 Emp	$28,597	$250,000	$250,000	$500,000	$500,000	$14,341	$750	$384,890
		$44,066	**$282,561**	$270,006	$534,782	**$532,573**	$26,573	$1,800	$407,358

Sample Business	Gross Receipts/ Employee/Units	Foster City	Model 4X-1 $250k	Model 4X-2 $250K	Model 4Y-1 $500K	Model 4Y-2 $500K	Hayward	Richmond	San Bruno
Restaurant Chain	$625,000 / 50 Emp	$469	$569	$381	$569	$381	$167	$750	$630
Large Retailer – Grocery Store	$20,000,000 / 300 Emp	$15,000	$31,992	$19,625	$34,213	$32,192	$5,399	$24,850	$8,080
Business Services – Large Firm	$350,000,000 / 400 Emp	$28,597	$250,000	$250,000	$500,000	$500,000	$94,499	$1,831,850	$116,980
		$44,066	**$282,561**	$270,006	$534,782	**$532,573**	$100,065	$1,857,450	$125,690

Sample Business	Gross Receipts/ Employee/Units	Foster City	Model 4X-1 $250k	Model 4X-2 $250K	Model 4Y-1 $500K	Model 4Y-2 $500K	San Carlos	San Mateo	Sausalito	Union City
Restaurant Chain	$625,000 / 50 Emp	$469	$569	$381	$569	$381	$966	$466	$625	$269
Large Retailer – Grocery Store	$20,000,000 / 300 Emp	$15,000	$31,992	$19,625	$34,213	$32,192	$3,055	$11,509	$20,000	$8,600
Business Services – Large Firm	$350,000,000 / 400 Emp	$28,597	$250,000	$250,000	$500,000	$500,000	$3,055	$199,609	$1,050,000	$150,500
		$44,066	**$282,561**	$270,006	$534,782	**$532,573**	$7,076	$211,584	$1,070,625	$159,369