

We have been exploring possibilities for how to adjust the City's business license tax to help preserve services for the residents of the City and the businesses that are part of the fiscal tapestry of the City.

By exploring these possibilities, we hope to illuminate some possible paths to overcoming the structural deficit facing the City over the next five years. Much like the history of the reclaimed land on which the City is built, exploring these possibilities seeks to shore up the resources needed to protect the City, the people that call it home, and the businesses that have chosen to locate here.

We have been working extensively with our business license modernization team to review the City's current structure, compare that structure to others in our area, and review possible paths to our goals.

This summary presents a few highlights of the work so far.

## What is a business license tax, and how is it measured?

The business license tax is a tax on "carry[ing] on any business, trade, profession, calling, or occupation in the City." (Foster City Municipal Code (FCMC), sect. 5.04.030).

Once we know what is taxed, we need to measure how much of that taxable activity is occurring within the City (or subject to the City's taxation powers). For ease of reference, we call this the "measure of the tax."

In most cases, business license tax uses proxies for the measure of taxable activity. Those proxies fall into the three significant alternatives for measuring taxable activity: inputs (like the number of employees), flat taxes, and outputs or gross receipts. The chart below summarizes the key points of comparison for the different measures.

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## Major Types of Measurements

Measure Type	Measure	Pro	Con
Input	Per Employee	<ul style="list-style-type: none"> <li>Maybe less volatile than gross receipts</li> </ul>	<ul style="list-style-type: none"> <li>Higher burden on businesses with more labor inputs (like restaurants) that have already seen their costs of goods sold increase.</li> <li>Doesn't capture per-employee productivity gains from technology.</li> </ul>
Input	Square footage	<ul style="list-style-type: none"> <li>Fixed amount for calculation</li> </ul>	<ul style="list-style-type: none"> <li>Can be tricky to calculate.</li> <li>Tends to miss the business activity occurring at other than floor level. (For example, if you have a warehouse that has shelving that is 20 feet high, but you are only measuring the square footage imprint, your measure misses significant business activity.</li> <li>Is limited to only businesses with a location in the city, reducing the tax base.</li> </ul>
Input	Unit	<ul style="list-style-type: none"> <li>The units of input may already be tracked.</li> </ul>	<ul style="list-style-type: none"> <li>Does require pro-ration and may only have a weak relation to the amount of business activity.</li> </ul>
Flat	N/A	<ul style="list-style-type: none"> <li>Easy to calculate.</li> </ul>	<ul style="list-style-type: none"> <li>No clear relationship to the amount of taxable activity.</li> </ul>
Output	Gross Receipts	<ul style="list-style-type: none"> <li>Closer relationship to the amount of business activity since it captures the output of the taxable activity.</li> <li>Can include alternative measures for the cost of operations without traditionally recognized "gross receipts."</li> </ul>	<ul style="list-style-type: none"> <li>Increase in the volatility of revenues since they are pegged to the outputs of the business activities.</li> <li>In some cases, may be harder to calculate.</li> <li>Under State law, it cannot be based on net income.</li> </ul>

## What is Foster City's current business tax structure?

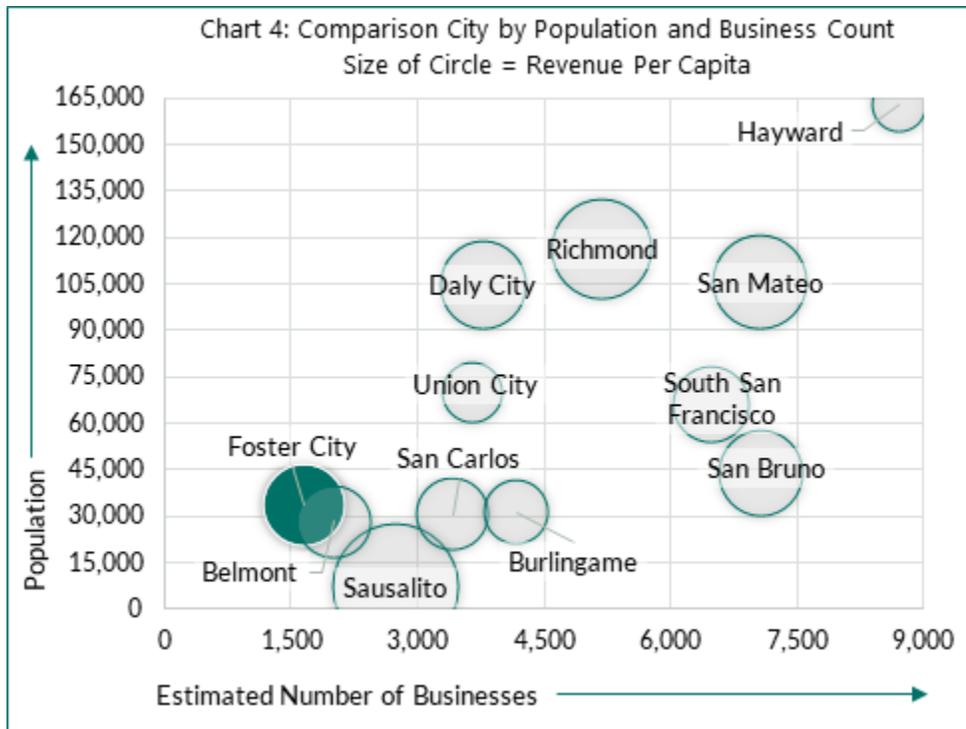
Category	Minimum Tax	Gross Receipt Rate	Maximum Tax	Business Count	Total Reported <sup>1</sup> Gross Receipts	Tax Collected
General Contractor	\$200	\$0.75 per thousand	\$28,597	449	\$204,000,000	\$203,000
All Other Businesses	\$100			1,202	\$59,895,000,000	\$1,448,000
Totals				1,651	\$60,099,000,000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

<sup>1</sup> Gross receipts represented in the tables is based on the reported gross receipts, given the low cap there is reason to be cautious about concluding that all of that revenue is from taxable activity in Foster City.

The City currently uses gross receipts as its measure of taxable activity. The key features of the City's current gross receipts tax—at least as they impact revenue—are the minimum tax and maximum tax (or cap). Please note that both in the table above and throughout this summary, 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 actually used a lower amount than the actual results in 2023 to adjust for some uncertainties in the gross-receipt reporting (as noted in footnote 1, below).

## How does Foster City's tax structure compare to other cities?

Foster City is about in the middle of the comparison cities on a per capita basis.



City	Revenue Per Capita
Sausalito <sup>6</sup>	\$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

**Table 3:**  
**Revenue Per Capita Comparison**

If we compare the City to others in the region, using the hypothetical businesses in the two tables below, Foster City is currently imposing a lower tax than about half of the comparison cities. The key driver of that difference is the City's cap on taxable gross receipts.

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Sample Business	Gross Receipts/ Employee/Units	Foster City	Belmont	Burlingame	Daly City	Hayward
Outside Sub-Contractor	\$6,000 / 1 Emp	\$100	\$376	\$200	\$110	\$53
Home-Based Cottage Food / Retail	\$22,000 / 1 Emp	\$100	\$376	\$200	\$110	\$16
General Contractor - Remodeling	\$85,000 / 3 Emp	\$200	\$446	\$200	\$110	\$53
Business Service	\$450,000 / 5 Emp	\$338	\$516	\$300	\$385	\$120
Engineering Firm	\$500,000 / 5 Emp	\$375	\$516	\$300	\$440	\$632
Restaurant Chain	\$625,000 / 50 Emp	\$469	\$1,391	\$300	\$578	\$167
Family Dentistry	\$2,000,000 / 10 Emp	\$1,500	\$691	\$750	\$2,090	\$2,627
Apartment Complex	\$5,000,000 / 20 Emp / 150 Units	\$3,750	\$5,500	\$750	\$5,390	Repealed
Large Retailer - Grocery Store	\$20,000,000 / 300 Emp	\$15,000	\$10,841	\$750	\$21,890	\$5,399
Business Services - Large Firm	\$350,000,000 / 400 Emp	\$28,597	\$14,341	\$750	\$384,890	\$94,499
		<b>\$50,428</b>	<b>\$34,994</b>	<b>\$4,500</b>	<b>\$415,993</b>	<b>\$103,567</b>

Sample Business	Gross Receipts/ Employee/Units	Foster City	San Bruno	San Carlos	San Mateo
Outside Sub-Contractor	\$6,000 / 1 Emp	\$100	\$75	\$253	\$40
Home-Based Cottage Food / Retail	\$22,000 / 1 Emp	\$100	\$100	\$253	\$25
General Contractor - Remodeling	\$85,000 / 3 Emp	\$200	\$100	\$253	\$100
Business Service	\$450,000 / 5 Emp	\$338	\$478	\$271	\$366
Engineering Firm	\$500,000 / 5 Emp	\$375	\$530	\$321	\$394
Restaurant Chain	\$625,000 / 50 Emp	\$469	\$630	\$966	\$466
Family Dentistry	\$2,000,000 / 10 Emp	\$1,500	\$1,480	\$446	\$1,249
Apartment Complex	\$5,000,000 / 20 Emp / 150 Units	\$3,750	\$3,130	\$796	\$2,959
Large Retailer - Grocery Store	\$20,000,000 / 300 Emp	\$15,000	\$8,080	\$3,055	\$11,509
Business Services - Large Firm	\$350,000,000 / 400 Emp	\$28,597	\$116,980	\$3,055	\$199,609
		<b>\$50,428</b>	<b>\$131,583</b>	<b>\$9,669</b>	<b>\$216,718</b>

## What possibilities are there to modernize the tax and preserve services?

We are continuing to explore options for addressing the needs of small businesses and our community with various alternative tax models that can lower the tax that smaller businesses pay (by lowering the minimum tax), increasing the gross receipt rate modestly, and having larger businesses pay more of their fair share by increasing the cap. Models along that line could potentially increase business tax revenue up to \$1 million per year.

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