



OPINION
RESEARCH
& STRATEGY

TO City of Foster City

FROM Curt Below and Lucia Del Puppo
FM3 Research

RE: Business License Tax Business Survey Summary Memo

DATE July 4, 2024

FM3 research recently completed a survey of 52 Foster City businesses.ⁱ The results show that businesses widely view Foster City as a good place to do business and half expect their businesses to grow in the next few years. However, many have reservations about the proposal to update the business license tax (BLT), and there is a strong preference to ensure that the majority of businesses currently paying the minimum BLT would see no change in what they pay.

The balance of this memo includes more detailed findings from that survey, with the first half more broadly focused on the Foster City business environment and the second half more narrowly focused on a proposal to update the City's BLT.

- **Businesses widely rate Foster City as a good place to do business.** As shown in Figure 1, 69% of survey respondents said the City is an “excellent” or “good” place to do business. One in five (19%) said it is a “fair” place to do business and only one in ten said it is a “poor” place.

Figure 1: Rating Foster City as a Place to do Business

In general, would you say that Foster City is an excellent, good, fair, or poor place to do business? (n=52)

Rating	%
EXCELLENT/GOOD	69%
Excellent	27%
Good	42%
Fair	19%
Poor	10%
Don't know	2%

- **Broad majorities are likely to remain in Foster City in the next few years and a plurality think their businesses will grow.** As shown in Figure 2, 73% indicated they are likely to remain in Foster City the next few years, and 46% are very likely to do so. One in five (19%) said they are unlikely to remain in Foster City in the next few years. (Of those potentially no longer operating businesses in Foster City in a few years—10 respondents—the reasons provide were varied, including retirement, the cost of living, high rents/taxes, small offices/warehouses, and the permitting process.) Furthermore, half of respondents (48%) said that their business will grow in the next few years; 27% said it would stay the same and 15% said it would shrink.

Figure 2: Likelihood of Remaining in Foster City

And thinking about the future, do you think it is likely or unlikely that your business will be operating in Foster City a few years from now? (n=52)

Likelihood	%
TOTAL LIKELY	73%
Very likely	46%
Somewhat likely	27%
TOTAL UNLIKELY	19%
Somewhat unlikely	8%
Very unlikely	12%
Not sure	8%

- **Thoughts on improving the local business environment ranged from lowering costs to improving bureaucratic efficiencies to expanded marketing and networking opportunities.** Survey respondents were asked to explain in their own words what they thought the City could do to support local businesses. Those responses were grouped and are summarized in Figure 3. (Respondents sometimes provided multiple suggestions, pushing the total percentages above 100%.) While there was not a dominate suggestion, several touched on lowering costs, reducing bureaucratic inefficiencies, and helping with marketing and networking.

Figure 3: Supporting Local Businesses

In your own words, what do you think is the most important thing Foster City could do to support local businesses? (n=52)

Suggestion	%
Lower taxes	21%
Lower business license cost/cost of business	15%
Cut the red tape/less restrictions/faster service	10%
Hold more events/market vendors/networking	10%
More general marketing/advertising	8%
More foot traffic	8%
No issues/keep it up	8%
Listen to us/be available/be aware	8%
More entertainment/restaurants	6%

Suggestion	%
Keep friendly business policies	6%
Make permit process easier	4%
Allow for more signage/bigger signs/community boards	4%
Safety/keep people safe	2%
Lower minimum wages	2%
Provide loan support	2%
Improve infrastructure	2%
None/Nothing	2%
Don't Know/Unsure	4%

- **Broad majorities are familiar with the City's Business License Tax and they widely identify it as "clear and easy to understand" and "easy to file and pay."** Nearly four in five (79%) said they are familiar with the City's Business License Tax. More than three quarters say it is easy to file and pay (77%) and 73% say it is easy and clear to understand (Figure 4). However, survey respondents were divided on whether the amount of the tax is fair (48% to 42%) and a majority (54%) disagreed with the assertion that the benefits of paying the tax are clear. This latter point suggests an area the City may wish to focus on with future engagements with the local business community.

Figure 4: Views on the City's Business License Tax

Next, please indicate whether you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with each of the following statements regarding Foster City's Business License Tax. (n=52)

Statement	Total Agree	Total Disagree
It is easy to file and pay	77%	13%
It is clear and easy to understand	73%	19%
The amount of the tax is fair	48%	42%
The benefits of paying the tax are clear	37%	54%

Survey respondents were next presented with background information about the BLT, as shown in (Figure 5 on the following page). Next, they were then presented with a description of one potential update to the BLT currently under consideration and asked to indicate whether it sounded like something their business would support or oppose (Figure 6 on the following page). They were next provided with some explanations of why the City was considering the updates and asked a second time to express their support or opposition to the proposed updates (Figure 7 on the following page).

Figure 5: Business License Tax Background

Here is some background about Foster City's Business License Tax. It was first introduced when Foster City was incorporated, having only been updated once in the last 53 years. Currently, the minimum Business License Tax is applied annually and is \$100 for most businesses and \$200 for General Contractors. It also includes a component that assesses a tax of 75 cents per \$1,000 on approximately a business' first \$40 million dollars in reported gross receipts. Of the 1,650 businesses that currently pay the tax, around 1,200 pay only the minimum. Additionally, there is a taxable gross receipts cap that is adjusted annually for inflation which for the year 2024 works out to a maximum business tax of roughly \$29,000 for the City's largest 18 businesses.

Figure 6: Business License Tax Update Proposal

Foster City is now considering several different potential options to update its Business License Tax. All of the different alternatives include increasing the maximum tax from roughly \$29,000 to \$500,000, which would impact local businesses with gross receipts approximately above \$40 million dollars. Additionally, some of the alternatives include increasing the tax rate up to \$1.25 per \$1,000 of gross receipts up to the cap.

Does increasing the tax rate from the existing 75 cents per \$1,000 to \$1.25 per \$1,000 of gross receipts, with a maximum tax of \$500,000, sound like something your business would support or oppose?

Figure 7: Business License Tax Update Rationale

Foster City is now considering several different potential options to update its Business License Tax. All of the different alternatives include increasing the maximum tax from roughly \$29,000 to \$500,000, which would impact local businesses with gross receipts approximately above \$40 million dollars. Additionally, some of the alternatives include increasing the tax rate up to \$1.25 per \$1,000 of gross receipts up to the cap.

Does increasing the tax rate from the existing 75 cents per \$1,000 to \$1.25 per \$1,000 of gross receipts, with a maximum tax of \$500,000, sound like something your business would support or oppose?

- **Both initially after the background and explanation—and after being provided a rationale—a majority opposed the proposed update to the BLT.** When asked about the proposed changes to the BLT, 25% indicated their business would support the update and 65% expressed opposition (Figure 8). Support did increase modestly to 32% when respondents were provided with the additional context, and opposition fell to 56%.

Figure 8: Views on the Proposed Business License Tax Update

Position	Initial Support after Background and Update Description (n=52)	Support after Update Rationale (n=50)
TOTAL SUPPORT	25%	32%
Strongly support	12%	14%
Somewhat support	13%	18%
TOTAL OPPOSE	65%	56%
Somewhat oppose	15%	10%
Strongly oppose	50%	46%
Undecided	10%	12%

The most appealing element of the update was ensuring that the current number of businesses that pay the minimum tax would not see changes to the amount paid. Survey respondents were provided with a variety of different elements that could be part of any update, and they were asked to indicate whether their business would be more or less likely to support an update if it included that element, or if its inclusion would make no difference to them. As shown in

- Figure 9 on the following page, along with the protections to those who pay the minimum tax, exemptions for nonprofits and increasing taxes on the biggest businesses were among the less divisive aspects of the proposal. Additionally, though the differences were minor, there did appear to be a preference for lower-dollar-amount elements, such as a modest preference for a cap of \$250,000 rather than a cap of \$500,000 and a modest preference for increasing the tax rate to \$1.00 per \$1,000 of gross receipts rather than \$1.25 per \$1,000 of gross receipts.

Figure 9: Reactions to Potential Individual Elements of the Proposal

Here are some different potential elements of a Business License Tax update that are under consideration. For each one, please indicate if your business would be more likely or less likely to support a Business License Tax update if that element were included, or if it would make no difference to you. (n=39)

Element	Total More Likely	Makes No Difference	Total Less Likely
Ensuring that the current number of 1,200 businesses that pay the minimum tax would see no change in their Business License Tax	64%	21%	13%
Continuing exemptions for nonprofits	44%	33%	18%
Increasing the maximum tax from roughly \$29,000 to \$250,000, which would impact businesses with gross receipts of approximately \$40 million dollars or more	44%	31%	23%
Increasing the tax rate up to \$1.00 per \$1,000 of gross receipts, which would increase the tax paid by a company with \$1,000,000 in gross receipts from roughly \$750 to \$1,000 per year	41%	13%	41%
Phasing in the max tax increase over three years	38%	31%	26%
Increasing the maximum tax from roughly \$29,000 to \$500,000, which would impact businesses with gross receipts of approximately \$40 million dollars or more	36%	33%	28%
Adjusting the maximum business tax annually to account for inflation	36%	21%	41%
Adjusting the minimum business tax annually to account for inflation	36%	18%	44%
Increasing the tax rate up to \$1.25 per \$1,000 of gross receipts, which would increase the tax paid by a company with \$1,000,000 in gross receipts from roughly \$750 to \$1,250 per year	33%	18%	46%

Taken together, these results suggest that local businesses like operating in Foster City, plan to continue operation into the future, and many are hoping to grow. When it comes to the BLT, most are familiar with it and find it easy to understand, file and pay. However, there are mixed opinions on its current fairness and general unfamiliarity with the benefits of paying it. With that background, most businesses surveyed were not enthusiastic about a potential update to the BLT currently under consideration, though support increased modestly when its rationale was presented and was greater for updates with smaller tax rate and cap increases.

ⁱ Methodology: From June 4-July 3, 2024, FM3 completed 52 online and telephone interviews with Foster City businesses, with contact information provided by the City. Due to rounding, not all totals will sum to 100% and not all respondents answered all questions.