

CITY OF FOSTER CITY

2024 BUSINESS LICENSE TAX UPDATE PROPOSAL

MAY 2024





Agenda

- **City Council Vision & Mission**
- **Why Foster City?**
- **City Services**
- **City Infrastructure**
- **City Budget**
- **Current Business License Tax Structure**
- **2024 Draft Business License Tax Models Proposed**
- **Timeline/Key Dates**
- **Feedback/Questions**

Vision Statement

“Create a vibrant and sustainable Foster City community through smart, inclusive, and efficient actions to preserve and enhance our quality of life for current and future generations.”



Mission Statement

The mission of the City of Foster City is to deliver services, invest in quality infrastructure and implement policies that prioritize public safety, smart planning, a vibrant economy, fiscal stability, community connections, and a sustainable environment. In pursuit of this mission, we use community engagement and data to make decisions and measure progress based on economic, social, and environmental factors.



Why Foster City?

Foster City is unique, diverse, innovative, and has a big vision for the future. It is the destination of choice for residents and businesses.

- ▶ Consistently rated among top safest cities
- ▶ Well-maintained roads and infrastructure
- ▶ Ideal location with proximity to Silicon Valley and San Francisco
- ▶ Highly skilled work force and world-renowned businesses
- ▶ Vibrant community with robust recreational amenities, such as parks, waterways, and access to the beautiful Bay Trail





CITY SERVICES

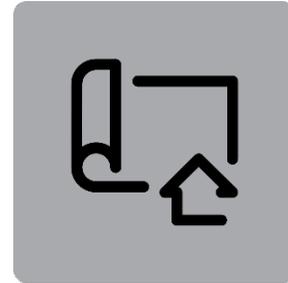




Fire & EMS
San Mateo
Consolidated Fire
Department



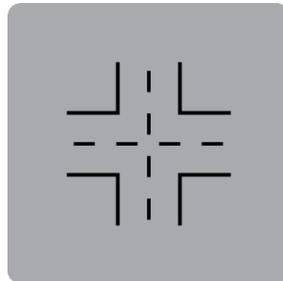
**Parks and
Recreation**



**Planning &
Building
Safety**



**Foster City
Police
Department**



**Public
Works**



**Library
JPA**

Public Safety & Emergency Services

- ▶ The Foster City Police Department's authorized staffing levels are for 39 Sworn Police Officers, as well as support staff & Community Service Officers.
- ▶ Historically rated among the safest cities in California and the nation.
 - Broader trends in commercial burglaries have not left the City untouched, however.
- ▶ **The Police Department responded to over 26,000 calls for service in 2023, a slight increase from the prior year.**
- ▶ Foster City contracts with the San Mateo Consolidated Fire Department for fire and emergency medical response.
- ▶ **Fire and EMS for service have increased approximately 10% per year over the last several years, and approximately 65% of fire calls are for medical emergencies.**

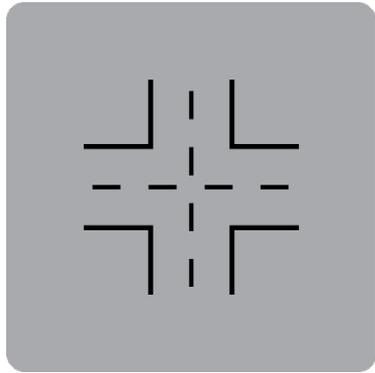
Public Safety & Social Equity Crime Statistics

CRIME TYPE	2022	2023	CHANGE
RESIDENTIAL BURGLARY	28	14	-50%
COMMERCIAL BURGLARY	14	33	+135%
THEFT	141	83	-41%
THEFT FROM VEHICLE	164	143	-12%
GRAFFITI	71	52	-26%
VANDALISM	57	42	-44%
STOLEN VEHICLES	38	33	-13%
DOMESTIC VIOLENCE	44	38	-13%
SEX CRIMES	18	9	-50%
ROBBERY	9	5	-44%
ASSAULTS	30	17	-43%
VIOLENT CRIMES TOTAL	102	101	-98%
PROPERTY CRIMES TOTAL	513	508	-97%
OVERALL CRIME TOTAL (all categories included those not listed here)	1072	933	-12%

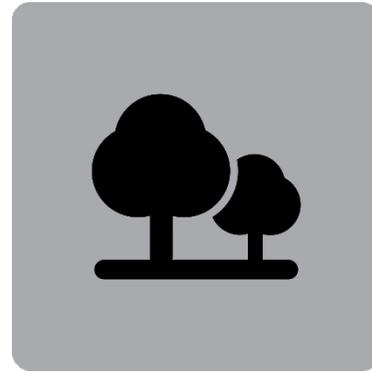
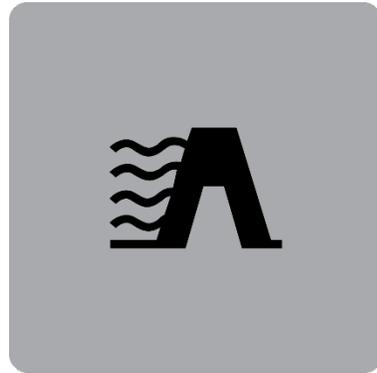


**CITY
INFRASTRUCTURE**





- 120 Miles of Streets & Roads
- Four (4) Bridges
- Over 2,000 Street Lights
- Recreation Center & 24 Parks
- Police Station & Fire Station
- Library/Community Center

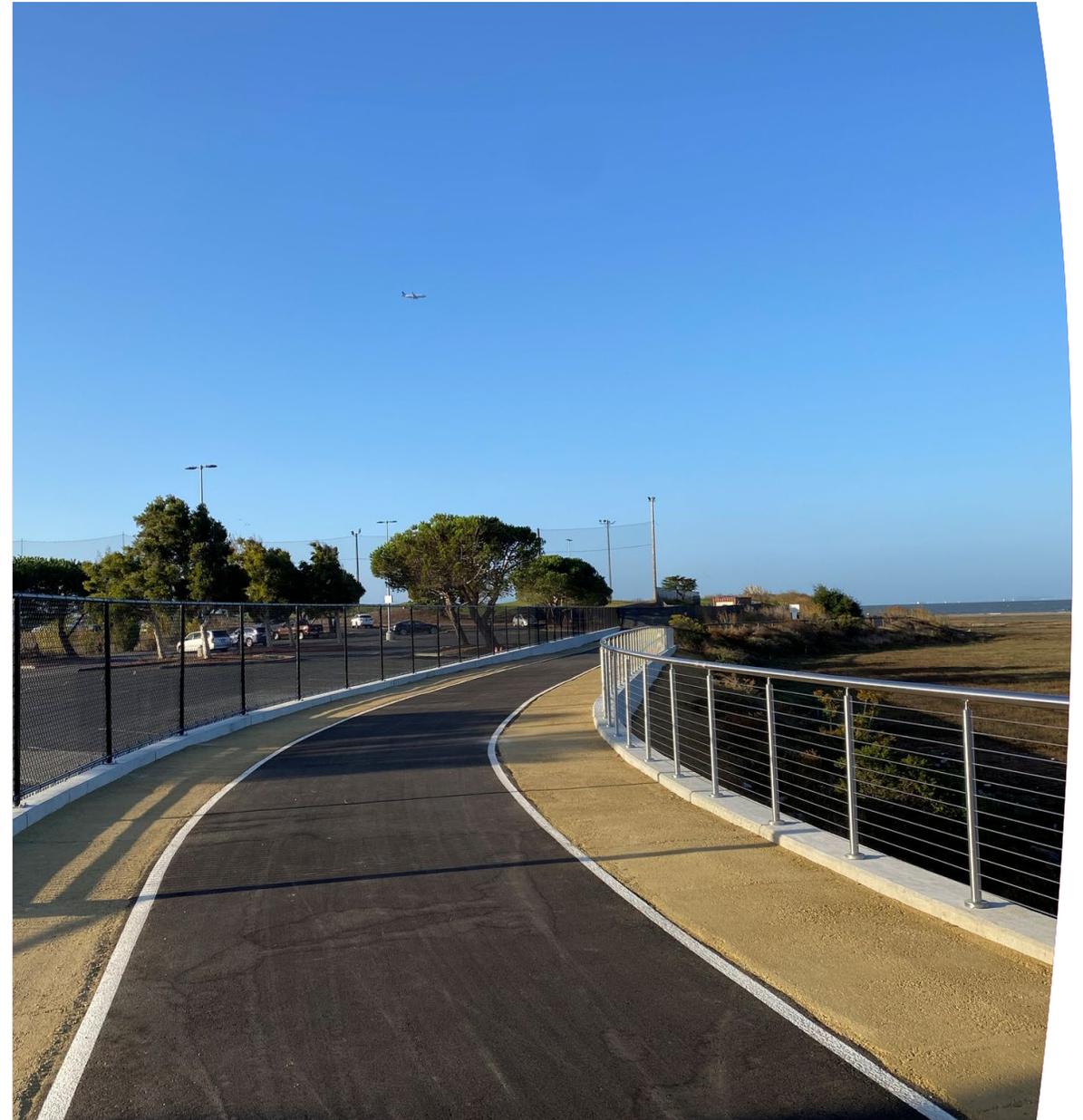


- Stormwater & Flood Control Systems
- Water Distribution Systems (EMID)
- Wastewater Collection Systems (EMID)
- Foster City Lagoon & Levee
- Buildings, Fleet & More



Levee Bay Trail

- ▶ Foster City maintains the 8-mile levee along the Bayfront, which protects the City from flood hazards and storms.
- ▶ In 2014, the Federal Emergency Management Agency (FEMA) conducted a coastal flood hazard study and determined that roughly 85% of the City's levee system did not meet FEMA requirements.
- ▶ The City recently completed a \$95 million upgrade to the levee through Measure P. The upgraded levee will protect the community from future sea level rise, reinforce the levee against earthquake damage, and enhance the popular regional Bay Trail for the enjoyment of its users.



Facilities and Infrastructure Needs

- Waste Water Treatment Plant (WWTP) Improvements Project
- Recreation Center Rebuild Project
- Adding a third Lagoon Pump
- Rehabilitate Lagoon Intake Structure and Pump Station buildings including seismic upgrades
- Maintain newly improved levee bay trail
- Water Tanks and Facilities Improvements
- Replace Emergency Generators
- Rehabilitate Shell Bridge Sanitary Sewer Force Main
- Rehabilitate Streets and Park Pathways
- Water Transmission and Distribution System Improvements

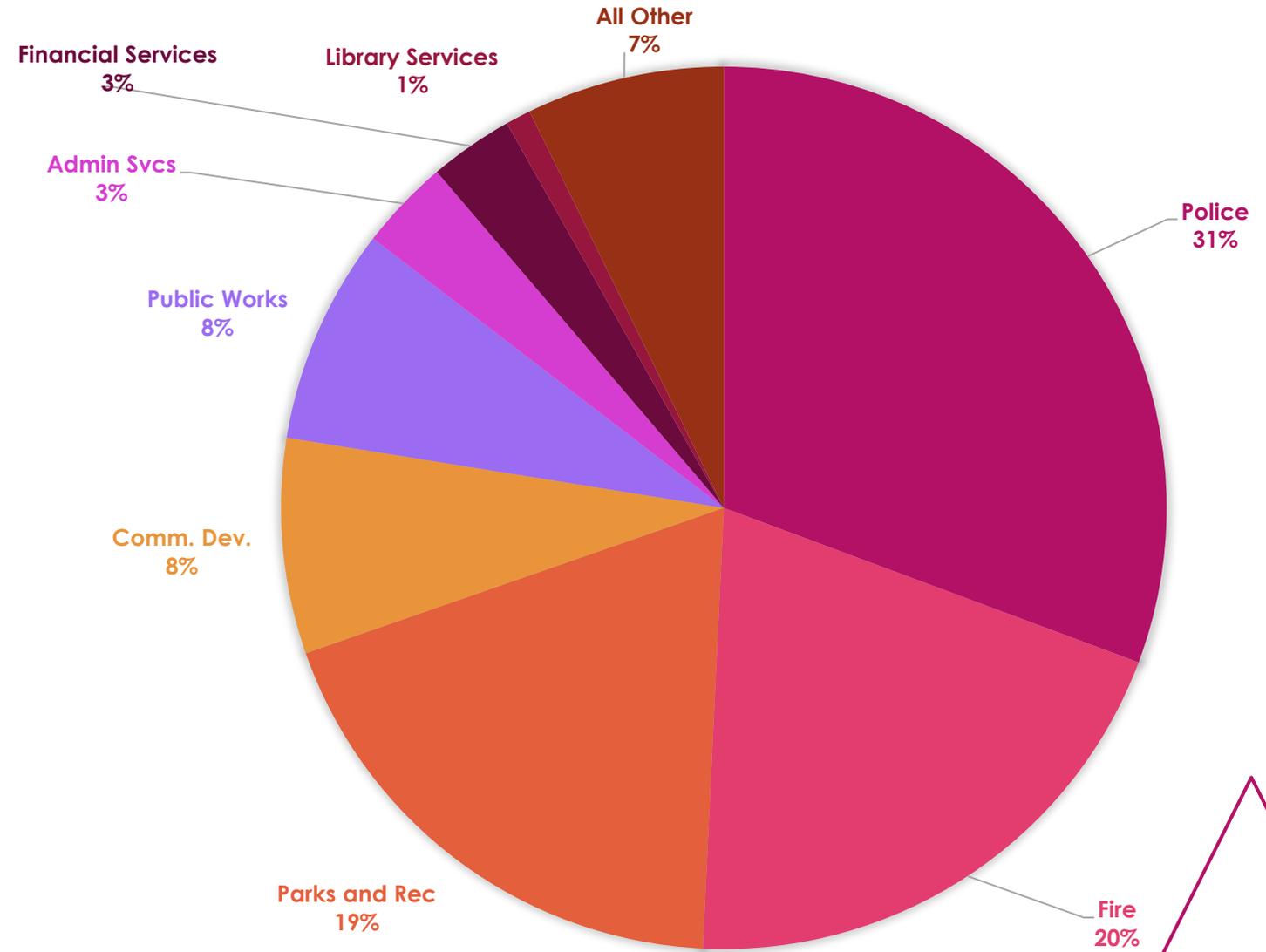


CITY BUDGET



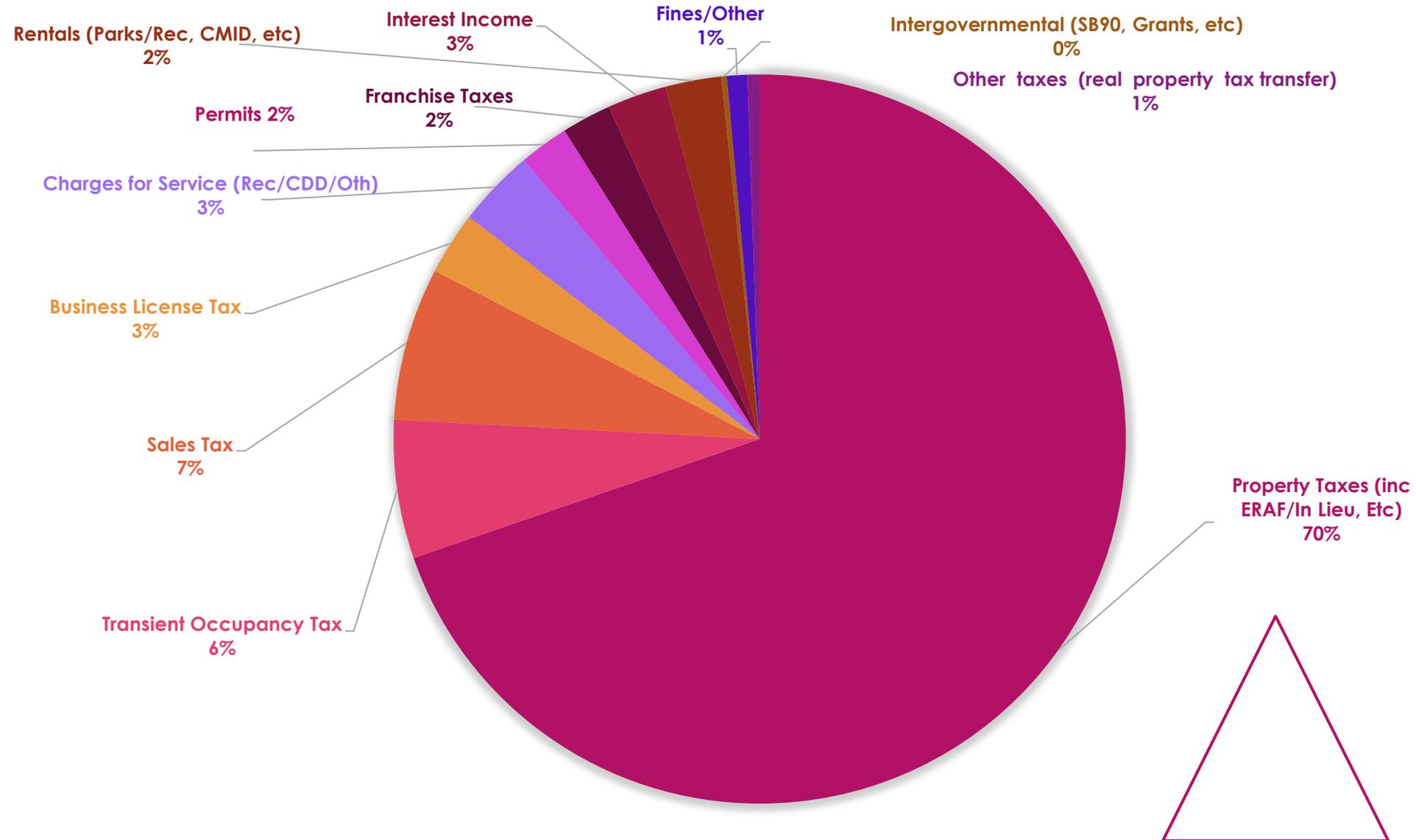
Where the Money Goes

Foster City's General Fund Budget for 2023-24 is just over \$58 million



City Revenue Sources

- Approx. 26% of Property Tax dollars stay local
 - Property Tax rates governed by Prop 13



Foster City Tax Structure

Sales Tax

Approx. 1 in 9 sales tax dollars stays local.

The City of Foster City has no local add-on sales tax and is tied for the lowest Sales Tax rate in San Mateo County.

Other Bay Area cities have higher rates as well. Hayward (10.75%), Oakland (10.25%), Fremont (10.25%), Emeryville, (10.5%), San Leandro (10.75%), and others.

Cities in San Mateo County	Sales Tax Rate
Belmont	9.875%
Daly City	9.875%
Redwood City	9.875%
San Bruno	9.875%
South San Francisco	9.875%
Brisbane	9.875%
East Palo Alto	9.875%
San Mateo	9.625%
Burlingame	9.625%
Atherton	9.375%
Foster City	9.375%
San Carlos	9.375%

Foster City Tax Structure

Transient Occupancy Tax (TOT)

In 2018, the City increased its transient occupancy tax (TOT) paid by hotel guests from 9.5% to 11% effective January 1, 2019, then to 12% effective July 1, 2019

FY 2018-19 - \$4.39 million

FY 2019-20 - \$3.5 million

FY 2020 -21- \$992,616

FY 2021-22 - \$1.98 million

FY 2022-23 - \$3.44 million

FY 2023-24 - \$3.56 million (estimate)

Cities in San Mateo County	TOT Rate
Half Moon Bay	15%
Belmont	14%
Brisbane	14%
Millbrae	14%
San Bruno	14%
San Carlos	14%
San Mateo	14%
South San Francisco	14%
Daly City	13%
Burlingame	12%
Foster City	12%
Redwood City	12%
Pacifica	12%

Foster City Tax Structure

Utility User Tax (UUT)

The City of Foster City has no Utility Users Tax, which can apply to gas, electric, water and telephone, cable/internet bills.

Numerous Bay Area cities impose UUTs at 5% or higher of these expenses. As an example, Palo Alto generates nearly \$16 mil/yr in UUT.

According to CaliforniaCityFinance.org: “On average, the UUT provides 15 percent of general-purpose revenue in cities that levy it. In some cities, the UUT provides as much as one third of the General Fund,” and “roughly half of California residents and businesses pay a utility user tax.”

City	UUT Rate*
Pacifica	6.5%
Daly City	5%
Palo Alto	5%
East Palo Alto	5%
Redwood City	5%
San Jose	5%
Portola Valley	4.5%
Foster City	0%

CA State Controller: California Cities Utility Users Taxes Revenue and Tax Rate Fiscal Year 2021-22

What has the City done to manage its budget?

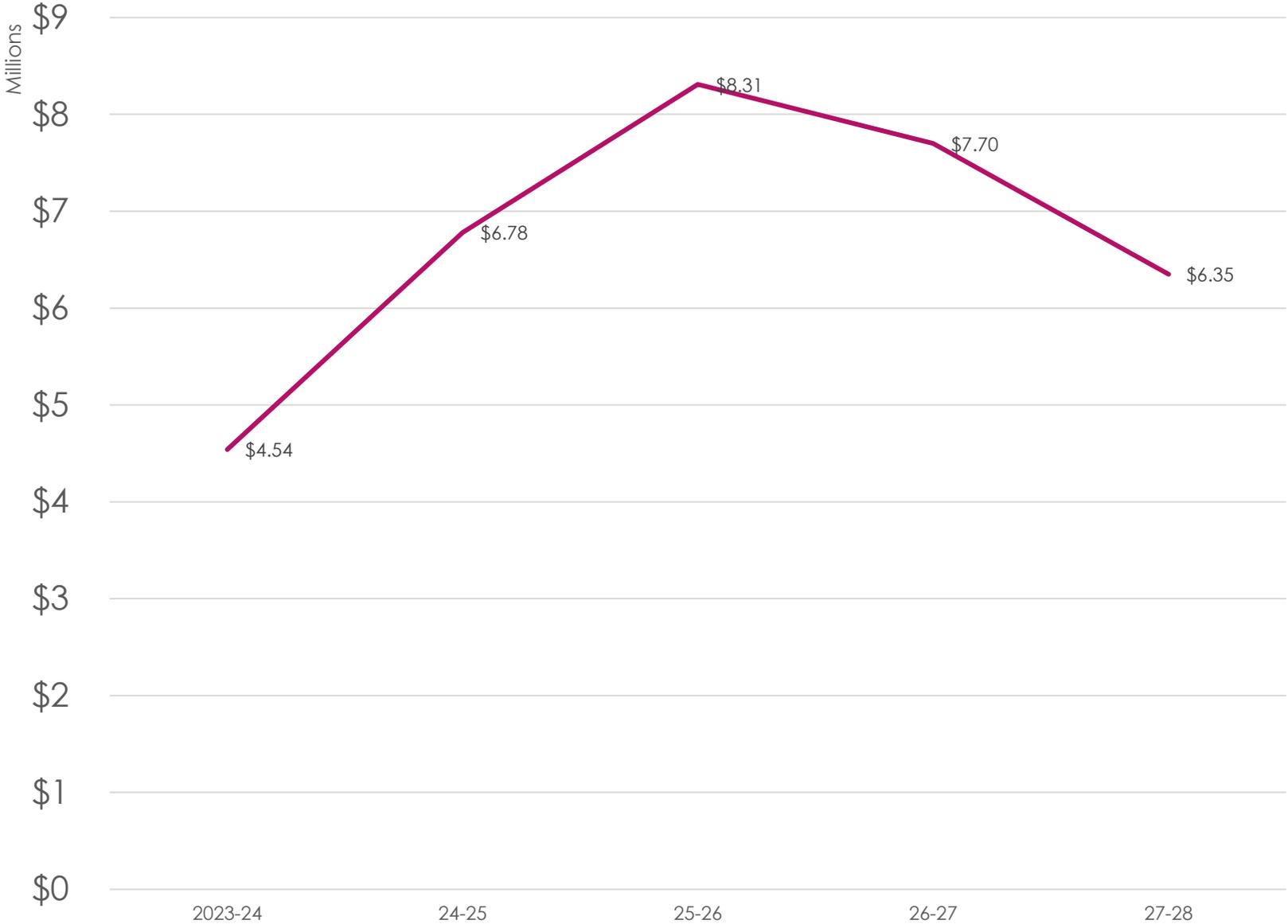
- ▶ Periodically reviewing the organizational structure and restructuring as necessary for cost savings and/or improved operational efficiencies.
- ▶ Implementing a hiring freeze during the pandemic.
- ▶ Seeking grant opportunities for capital replacement and infrastructure projects.
- ▶ Pursuing grant opportunities that offset staffing costs.
- ▶ Using consultant services to augment staffing needs.
- ▶ Periodically evaluating & prioritizing capital projects that need replacement and maintenance and defer/extend non-critical projects.
- ▶ Renegotiating contracts wherever possible.
- ▶ Leveraging the use of technology in City Operations.
- ▶ Taking positions on legislation that will adversely impact City revenues and operations

Fiscal Challenges

The City is projecting economic volatility for several of its key revenue streams that support its General Fund.

- ▶ Transient occupancy tax (TOT/hotel) revenues in Foster City have improved steadily since the COVID-19 pandemic, however, the ability to conduct virtual/remote meetings has likely reduced business travel and therefore hotel occupancy. TOT revenues continue to trail pre-pandemic levels.
- ▶ Higher interest rates have had multiple impacts as the City's investment income has expanded but so has the cost of service and supplies as well as supply chain disruptions.
- ▶ Development activity within the City has decreased due to high interest rates, lack of vacant land, high labor costs and difficulty obtaining bank loans.
- ▶ Continued trend in State mandates that place additional burden on existing resources.
- ▶ State potentially withholding millions of dollars in revenues from Vehicle License Fees (VLF) to San Mateo County cities due to State Budget deficits.
- ▶ Increasing personnel costs due to cost-of-living adjustment (COLA) each year coupled with increasing pension and health insurance costs.

Projected GF Deficit



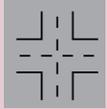
Projected
General Fund
Deficit

Note: These numbers are estimated projections. Final numbers will be part of the Final Budget

Need for additional revenues



Maintaining 911 emergency medical, police/ crime prevention and fire response services



Continue to maintain local streets, pathways, bike lanes and public sidewalks



Maintaining and repairing infrastructure to prevent flooding and other hazards



Keep existing parks and recreation facilities safe, clean, and well-maintained



Maintaining the City's Long Term Fiscal Sustainability



Current Business License Tax Structure

- The Business License Tax Ordinance was updated in November 2013 based on voter approval.
- The current tax rate is 0.075%, or 75 cents per thousand dollars of Gross Receipts.
- Nearly 1,300 of the City's 1,651 businesses report less than \$250,000 in Receipts and pay \$200 or less annually.

In calendar year 2023, the City's gross receipts cap was \$38,129,333 for a maximum tax of \$28,597.

The cap for 2024 increased by 2.8% (annual CPI adjustment) to \$39,196,000 for a maximum tax of \$29,397.

Category	Minimum Tax	Gross Receipt Rate	2023 Maximum Tax	Business Count	Total Reported ¹ 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

¹ Gross receipts represented in the tables is based on the reported gross receipts.

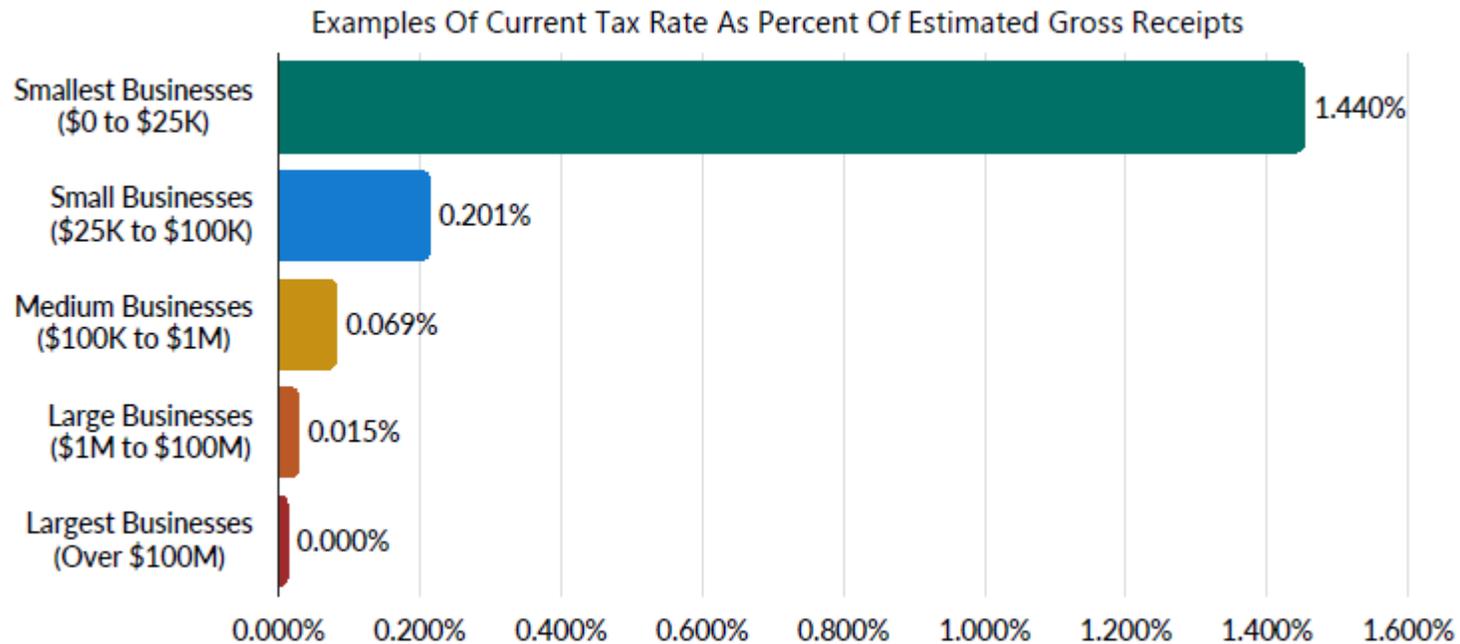
* Table Reflects Calendar Year Calculations

Comparison to other Cities

Sample Business	Gross Receipts/ Employee/Units	Foster City	Belmont	Burlingame	Daly City	Hayward	San Mateo	San Bruno
Outside Sub-Contractor	\$6,000 / 1 Emp	\$100	\$376	\$200	\$110	\$53	\$40	\$75
Home-Based Cottage Food / Retail	\$22,000 / 1 Emp	\$100	\$376	\$200	\$110	\$16	\$25	\$100
General Contractor - Remodeling	\$85,000 / 3 Emp	\$200	\$446	\$200	\$110	\$53	\$100	\$100
Business Service	\$450,000 / 5 Emp	\$338	\$516	\$300	\$385	\$120	\$366	\$478
Engineering Firm	\$500,000 / 5 Emp	\$375	\$516	\$300	\$440	\$632	\$394	\$530
Restaurant Chain	\$625,000 / 50 Emp	\$469	\$1,391	\$300	\$578	\$167	\$466	\$630
Family Dentistry	\$2,000,000 / 10 Emp	\$1,500	\$691	\$750	\$2,090	\$2,627	\$1,249	\$1,480
Apartment Complex	\$5,000,000 / 20 Emp / 150 Units	\$3,750	\$5,500	\$750	\$5,390	Repealed	\$2,959	\$3,130
Large Retailer - Grocery Store	\$20,000,000 / 300 Emp	\$15,000	\$10,841	\$750	\$21,890	\$5,399	\$11,509	\$8,080
Business Services - Large Firm	\$350,000,000 / 400 Emp	\$28,597	\$14,341	\$750	\$384,890	\$94,499	\$199,609	\$116,980
		\$50,428	\$34,994	\$4,500	\$415,993	\$103,567	\$216,718	\$131,583

Current Tax Structure - Effective Rate

The City's current tax code results in a regressive tax structure, where larger (red) businesses are paying proportionally less than the smaller businesses (green) based on estimated gross receipts.



2024 BUSINESS LICENSE TAX UPDATE PROPOSAL

- Maintain the minimum Business License Tax of \$100 per year for small business (businesses making up to \$250,000 yearly in gross receipts)
- Increase the gross receipt rate modestly
- Create tiers so that medium to large businesses pay a lower rate than the largest businesses
- Have larger businesses pay more of their fair share by increasing the existing cap.

1. **Equity** – *Ensuring that businesses of various size and across industries are assessed properly.*
2. **Fairness** – *Crafting a system that is fair to Foster City businesses and the demands for local services & infrastructure provided and maintained by the City.*
3. **Fit for Purpose** – *An instrument that reflects changing dynamics in the workplace and local/ regional economy.*

2024 DRAFT BLT Models Proposed

MODEL #1

Gross Receipts Scale Builder		Measure	Lower Bound	Upper Bound	Gross Receipt Rate	Min Tax
Number of Measures after 1	7	0	\$0	\$250,000	\$0.00	\$100.00
Minimum Gross Receipts Tax	\$100	1	\$250,000	\$4,400,000	\$1.25	\$100.00
Starting Gross Receipts (Per Thousand)	\$1.25	2	\$4,400,000	\$8,500,000	\$1.54	\$5,287.50
Final Gross Receipts (Per Thousand)	\$3.00	3	\$8,500,000	\$12,650,000	\$1.83	\$11,608.33
Maximum Gross Receipts Tax	\$250,000	4	\$12,650,000	\$16,750,000	\$2.13	\$19,216.67
Minimum Gross Receipts	\$250,000	5	\$16,750,000	\$20,900,000	\$2.42	\$27,929.17
Max Gross Receipts	\$25,000,000	6	\$20,900,000	\$25,000,000	\$2.71	\$37,958.33
Round to the Nearest	\$50,000	7	\$25,000,000		\$3.00	\$49,062.50
Est. Revenue	\$4,094,175					

Maximum Gross Receipts Tax: \$250,000

Estimated Revenue Increase: Approx, \$2.1 million

Gross Receipts Cap will increase annually based on SF Bay Area CPI-U

2024 DRAFT BLT Models Proposed

MODEL #2

	Gross Receipts Scale Builder
Number of Measures	7
Minimum Gross Receipts Tax	\$100
Starting Gross Receipts (Per Thousand)	\$1.25
Final Gross Receipts (Per Thousand)	\$3.75
Maximum Gross Receipts Tax	\$500,000
Minimum Gross Receipts	\$250,000
Max Gross Receipts	\$25,000,000
Round to the Nearest	\$50,000
Est. Revenue	\$5,326,812

Measure	Lower Bound	Upper Bound	Gross Receipt Rate	Min Tax
0	\$0	\$250,000	\$0.00	\$100.00
1	\$250,000	\$4,400,000	\$1.25	\$100.00
2	\$4,400,000	\$8,500,000	\$1.67	\$5,287.50
3	\$8,500,000	\$12,650,000	\$2.08	\$12,120.83
4	\$12,650,000	\$16,750,000	\$2.50	\$20,766.67
5	\$16,750,000	\$20,900,000	\$2.92	\$31,016.67
6	\$20,900,000	\$25,000,000	\$3.33	\$43,120.83
7	\$25,000,000		\$3.75	\$56,787.50

Maximum Gross Receipts Tax: \$500,000

Estimated Revenue Increase: Approx, \$3.4 million

Gross Receipts Cap will increase annually based on SF Bay Area CPI-U

Phasing proposed over 3 years

2024 DRAFT BLT Models Proposed

MODEL #3

	Gross Receipts Scale Builder
Number of Measures	7
Minimum Gross Receipts Tax	\$100
Starting Gross Receipts (Per Thousand)	\$0.75
Final Gross Receipts (Per Thousand)	\$1.50
Maximum Gross Receipts Tax	\$500,000
Minimum Gross Receipts	\$250,000
Max Gross Receipts	\$25,000,000
Round to the Nearest	\$50,000
Est. Revenue	\$4,142,292

Measure	Lower Bound	Upper Bound	Gross Receipt Rate	Min Tax
0	\$0	\$250,000	\$0.00	\$100.00
1	\$250,000	\$4,400,000	\$0.75	\$100.00
2	\$4,400,000	\$8,500,000	\$0.88	\$3,212.50
3	\$8,500,000	\$12,650,000	\$1.00	\$6,800.00
4	\$12,650,000	\$16,750,000	\$1.13	\$10,950.00
5	\$16,750,000	\$20,900,000	\$1.25	\$15,562.50
6	\$20,900,000	\$25,000,000	\$1.38	\$20,750.00
7	\$25,000,000		\$3.50	\$26,387.50

Maximum Gross Receipts Tax: \$500,000

Estimated Revenue Increase: Approx, \$2.2 million

Gross Receipts Cap will increase annually based on SF Bay Area CPI-U

Phasing proposed over 3 years

2024 DRAFT BLT Models Proposed

MODEL #4

	Gross Receipts Scale Builder
Number of Measures	7
Minimum Gross Receipts Tax	\$100
Starting Gross Receipts (Per Thousand)	\$0.75
Final Gross Receipts (Per Thousand)	\$2.75
Maximum Gross Receipts Tax	\$500,000
Minimum Gross Receipts	\$250,000
Max Gross Receipts	\$25,000,000
Round to the Nearest	\$50,000
Est. Revenue	\$4,469,861

Measure	Lower Bound	Upper Bound	Gross Receipt Rate	Min Tax
0	\$0	\$250,000	\$0.00	\$100.00
1	\$250,000	\$4,400,000	\$0.75	\$100.00
2	\$4,400,000	\$8,500,000	\$1.08	\$3,212.50
3	\$8,500,000	\$12,650,000	\$1.42	\$7,654.17
4	\$12,650,000	\$16,750,000	\$1.75	\$13,533.33
5	\$16,750,000	\$20,900,000	\$2.08	\$20,708.33
6	\$20,900,000	\$25,000,000	\$2.42	\$29,354.17
7	\$25,000,000		\$3.50	\$39,262.50

Maximum Gross Receipts Tax: \$500,000

Estimated Revenue Increase: Approx, \$2.5 million

Gross Receipts Cap will increase annually based on SF Bay Area CPI-U

Phasing proposed over 3 years

Next Steps/Key Dates

- ▶ Continued stakeholder outreach including 1-on-1 meetings, group meetings, surveys, polling, townhalls from April through June.
- ▶ Staff to seek Council direction at the May 20th Council Meeting on the models.
- ▶ Final City Council action required by June (4/5th vote) to place on November 2024 ballot.
- ▶ Business License Tax changes must go to voters during a general election where a governing board position is up for election.
- ▶ Simple Majority Vote (50%+1) required, but funds may not be restricted for any specific purpose.





Feedback & Questions

Thank You



All Images Source: google.com