



November 2020 Revenue Measure Gross Receipts Tax Measure

Special Meeting of the City Council
Finance Department and City Attorney's Office
Wednesday, August 5, 2020



Agenda

- Background
- Proposed Gross Receipts Tax Overview
- Rate Structure Options
- Business Community Outreach & Input
- Next Steps

Background

- City has structurally unbalanced budget
- Focus on increasing revenue and reducing expenditures
- Polling on revenue measures completed in June 2020
- Brought draft options to City Council on July 21st and July 28th, 2020
- Outreach to business community
- Special Council meeting on August 5, 2020

City Council 7.28.20

Formal Motion:

To bring back the ordinance with a progressive schedule based on the Berkeley model, tailored to the economics of the City of Richmond

Informal:

Continue outreach to the business community

Current Business License Model

- Base Rate of \$234.10 for most businesses
- Rate goes up based on number of employees
 - First 25 @ at \$46.80 per employee, above @ \$40.10
- Some currently pay based on gross receipts
 - Marijuana @ 5%
 - Movie Theatres @ 0.3% for revenues over \$20,000
- Expiration based on anniversary date

Gross Receipts Model

- Progressive Tax based on size of the business
- Business Categories with different rates
- Most business under \$250k in gross receipts pay base rate of \$200 per year
- Exemptions are currently included
- Council has flexibility to decrease rates, change start date, or add more exemptions

Example of the Calculation

Gross Receipts Calculation		
Retail Business		
Total Gross Receipts:	2,750,000	Example Gross Receipts Amount
Tier 3 base:	3,600	We call it base, but it is the corresponding tax for the first 2 tiers at the lower rates
Tier 3 tax above base @ 0.135%	<u>500</u>	This amount corresponds to \$250,000 x 0.135%
Total Tax Due:	4,100	
Tier 3 tax Calculation		
Tier 1	1,200	=1,000,000*0.120%
Tier 2	2,400	=1,500,000*0.160%
Tier 3	<u>500</u>	=250,000*0.200%
Total Tax Due	4,100	

Exemptions Included

- Non-profit educational institutions
- Religious Institutions
- New affordable housing development
- Buildings rented by the City
- Child day care
- City Council may add additional exemptions

Current Berkeley Model

Industry	Current Berkeley Rates
Retail Sales	0.12%
Grocers	0.06%
Automobile Sales, Manufacturing	0.12%
Recreation and Entertainment	0.45%
Hotel/motel	1.081%-2.880%
Media firms	No specific industry rate
Public utility	No specific industry rate
Construction contractor	0.18%
Business and personal services	0.18%
Professional/semi-professional service	0.36%
Administrative headquarters (payroll based, not gross receipts)	0.12%
Miscellaneous	0.24%
Residential Rentals	1.081%-2.880%
Commercial Rentals	1.081%
Firearms Ammunition	15.00%
Taxi and limousine service	\$215 per vehicle and other fees (\$350 owners permit, \$75 vehicle permit and \$25 driver permit)
Transportation, trucking	No specific industry rate
Cannabis (Medical)	2.50%
Cannabis (Non-Medical)	5.00%

Recommendation

Berkeley Rates as Floor & 1% Rental Rates

Industry	Recommendation - Potential Proposed Richmond Rates (Berkeley Rates as Floor & 1% Rental Rates)				
	\$0-\$1 Million	\$1M-\$2.5M	\$2.5M-\$25M	\$25M-\$50M	\$50M+
Retail Sales	0.12%	0.16%	0.20%	0.24%	0.32%
Grocers	0.06%	0.10%	0.13%	0.15%	0.20%
Automobile Sales, Manufacturing	0.12%	0.22%	0.31%	0.41%	0.50%
Recreation and Entertainment	0.45%	0.46%	0.47%	0.48%	0.50%
Hotel/motel	0.18%	0.28%	0.38%	0.48%	0.50%
Construction contractor	0.18%	0.21%	0.24%	0.27%	0.30%
Business and personal services	0.18%	0.27%	0.36%	0.50%	0.54%
Professional/semi-professional service	0.36%	0.41%	0.45%	0.50%	0.68%
Administrative headquarters (payroll based, not gross receipts)	0.12%	0.15%	0.19%	0.22%	0.24%
Miscellaneous	0.24%	0.31%	0.38%	0.45%	0.48%
Residential Rentals	1.00% with 50% discount for properties subject to rent control (.50%)				
Commercial Rentals	1.00%				
Firearms Ammunition	2.40%				
Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
Transportation, trucking	Tax based on current employee total				
Cannabis (Medical/Non-Medical)	5.00%				

Business Examples

- **Restaurant** with 15 employees and Gross Receipts totaling \$2,300,000
 - Current Richmond Tax = \$936.10 per year
 - Proposed Gross Receipts Tax = \$3,280 per year
- **Beauty Salon** with 1 employee and Gross Receipts totaling \$235,000 per year
 - Current Richmond Tax = \$280.90 per year
 - Proposed Gross Receipts Tax = \$200.00 per year

Residential Rental Properties

- **Current Richmond Model**

- All properties charged at \$234.10 per location

- **Proposed Richmond Model**

- All properties charged at 1.00% of gross receipts
 - 50% discount for properties subject to rent control (.50%)

Rental Property Examples

- **Single Family Dwelling @ \$1,500 per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$180.00 per year
- **10 unit apartment @ \$1,500 per unit per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax w/ Rent Control = \$900 per year
 - Proposed Model Tax w/out Rent Control = \$1,800 per year

Option #2

Berkeley Rate as Floor & 1.5% Rental Rate

Industry	Potential Proposed Richmond Rates (Berkeley Rates as Floor & 1.5% Rental Rates)				
	\$0-\$1 Million	\$1M-\$2.5M	\$2.5M-\$25M	\$25M-\$50M	\$50M+
Retail Sales	0.12%	0.16%	0.20%	0.24%	0.32%
Grocers	0.06%	0.10%	0.13%	0.15%	0.20%
Automobile Sales, Manufacturing	0.12%	0.22%	0.31%	0.41%	0.50%
Recreation and Entertainment	0.45%	0.46%	0.47%	0.48%	0.50%
Hotel/motel	0.18%	0.28%	0.38%	0.48%	0.50%
Construction contractor	0.18%	0.21%	0.24%	0.27%	0.30%
Business and personal services	0.18%	0.27%	0.36%	0.50%	0.54%
Professional/semi-professional service	0.36%	0.41%	0.45%	0.50%	0.68%
Administrative headquarters (payroll based, not gross receipts)	0.12%	0.15%	0.19%	0.22%	0.24%
Miscellaneous	0.24%	0.31%	0.38%	0.45%	0.48%
Residential Rentals	1.50% with 50% discount for properties subject to rent control (.75%)				
Commercial Rentals	1.00%				
Firearms Ammunition	2.40%				
Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
Transportation, trucking	Tax based on current employee total				
Cannabis (Medical/Non-Medical)	5.00%				

Business Examples

- **Restaurant** with 15 employees and Gross Receipts totaling \$2,300,000
 - Current Richmond Tax = \$936.10 per year
 - Proposed Gross Receipts Tax = \$3,280 per year
- **Beauty Salon** with 1 employee and Gross Receipts totaling \$235,000 per year
 - Current Richmond Tax = \$280.90 per year
 - Proposed Gross Receipts Tax = \$200.00 per year

Rental Property Examples

- **Single Family Dwelling @ \$1,500 per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$270.00 per year
- **10 unit apartment @ \$1,500 per unit per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$2,700 per year

Option #3



Berkeley Rate as Midpoint

Industry	Potential Proposed Richmond Rates (Berkeley Rates as Midpoint & 1% Rental Rates)				
	\$0-\$1 Million	\$1M-\$2.5M	\$2.5M-\$25M	\$25M-\$50M	\$50M+
Retail Sales	0.07%	0.10%	0.12%	0.14%	0.19%
Grocers	0.03%	0.05%	0.06%	0.07%	0.10%
Automobile Sales, Manufacturing	0.05%	0.08%	0.12%	0.16%	0.19%
Recreation and Entertainment	0.43%	0.44%	0.45%	0.46%	0.48%
Hotel/motel	0.09%	0.13%	0.18%	0.23%	0.24%
Construction contractor	0.14%	0.16%	0.18%	0.20%	0.23%
Business and personal services	0.09%	0.14%	0.18%	0.25%	0.27%
Professional/semi-professional service	0.29%	0.32%	0.36%	0.40%	0.54%
Administrative headquarters (payroll based, not gross receipts)	0.08%	0.10%	0.12%	0.14%	0.15%
Miscellaneous	0.15%	0.20%	0.24%	0.28%	0.31%
Residential Rentals	1.00% with 50% discount for properties subject to rent control (.50%)				
Commercial Rentals	1.00%				
Firearms Ammunition	2.40%				
Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
Transportation, trucking	Tax based on current employee total				
Cannabis (Medical/Non-Medical)	5.00%				

Business Examples

- **Restaurant** with 15 employees and Gross Receipts totaling \$2,300,000
 - Current Richmond Tax = \$936.10 per year
 - Proposed Gross Receipts Tax = \$2,000.00 per year
- **Beauty Salon** with 1 employee and Gross Receipts totaling \$235,000 per year
 - Current Richmond Tax = \$280.90 per year
 - Proposed Gross Receipts Tax = \$200.00 per year

Rental Property Examples

- **Single Family Dwelling @ \$1,500 per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$180.00 per year
- **10 unit apartment @ \$1,500 per unit per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$1,800 per year

Option #4



Berkeley Rate as Ceiling

Industry	Potential Proposed Richmond Rates (Berkeley Rates as Ceiling & .75% Rental Rates)				
	\$0-\$1 Million	\$1M-\$2.5M	\$2.5M-\$25M	\$25M-\$50M	\$50M+
Retail Sales	0.05%	0.06%	0.08%	0.09%	0.12%
Grocers	0.02%	0.03%	0.04%	0.05%	0.06%
Automobile Sales, Manufacturing	0.03%	0.05%	0.07%	0.10%	0.12%
Recreation and Entertainment	0.41%	0.41%	0.42%	0.43%	0.45%
Hotel/motel	0.06%	0.10%	0.14%	0.17%	0.18%
Construction contractor	0.11%	0.13%	0.14%	0.16%	0.18%
Business and personal services	0.06%	0.09%	0.12%	0.17%	0.18%
Professional/semi-professional service	0.19%	0.22%	0.24%	0.26%	0.36%
Administrative headquarters (payroll based, not gross receipts)	0.06%	0.08%	0.09%	0.11%	0.12%
Miscellaneous	0.12%	0.15%	0.19%	0.22%	0.24%
Residential Rentals	.75% with 50% discount for properties subject to rent control (.375%)				
Commercial Rentals	1.00%				
Firearms Ammunition	15.00%				
Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
Transportation, trucking	Tax based on current employee total				
Cannabis (Medical/Non-Medical)	5.00%				

Business Examples

- **Restaurant** with 15 employees and Gross Receipts totaling \$2,300,000
 - Current Richmond Tax = \$936.10 per year
 - Proposed Gross Receipts Tax = \$1,280.00 per year
- **Beauty Salon** with 1 employee and Gross Receipts totaling \$235,000 per year
 - Current Richmond Tax = \$280.90 per year
 - Proposed Gross Receipts Tax = \$200.00 per year

Rental Property Examples

- **Single Family Dwelling @ \$1,500 per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$135.00 per year
- **10 unit apartment @ \$1,500 per unit per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$1,350 per year

Option #5



Proposed Oakland Rates

Industry	Proposed Oakland Rate with Berkely Rental Rates (1.081% - 2.880%)				
	\$0-\$1 Million	\$1M-\$2.5M	\$2.5M-\$25M	\$25M-\$50M	\$50M+
Retail Sales	0.075%	0.10%	0.125%	0.15%	0.20%
Grocers	0.060%	0.10%	0.125%	0.15%	0.20%
Automobile Sales, Manufacturing	0.125%	0.225%	0.325%	0.425%	0.525%
Recreation and Entertainment	0.45%	0.46%	0.47%	0.48%	0.50%
Hotel/motel	0.18%	0.28%	0.38%	0.48%	0.50%
Media firms	0.18%	0.28%	0.38%	0.48%	0.50%
Public utility	0.18%	0.28%	0.38%	0.48%	0.50%
Construction contractor	0.30%	0.35%	0.40%	0.45%	0.50%
Business and personal services	0.20%	0.30%	0.40%	0.55%	0.60%
Professional/semi-professional service	0.40%	0.45%	0.50%	0.55%	0.75%
Administrative headquarters (payroll based, not gross receipts)	0.35%	0.45%	0.55%	0.65%	0.70%
Miscellaneous	0.35%	0.45%	0.55%	0.65%	0.70%
Residential Rentals	1.081%-2.880%				
Commercial Rentals	1.081%				
Firearms Ammunition	2.40%				
Taxi and limousine service	\$75 for each ambulance or limousine and \$180 for each taxicab permit				
Transportation, trucking	Tax based on current employee total				
Cannabis (Medical/Non-Medical)	5%				

Business Examples

- **Restaurant** with 15 employees and Gross Receipts totaling \$2,300,000
 - Current Richmond Tax = \$936.10 per year
 - Proposed Gross Receipts Tax = \$2,050.00 per year
- **Beauty Salon** with 1 employee and Gross Receipts totaling \$235,000 per year
 - Current Richmond Tax = \$280.90 per year
 - Proposed Gross Receipts Tax = \$200.00 per year

Rental Property Examples

- **Single Family Dwelling @ \$1,500 per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$195.86 per year
- **10 unit apartment @ \$1,500 per unit per month**
 - Current Richmond Tax = \$234.10 per year
 - Proposed Model Tax = \$5,184 per year

Business Community Outreach

- Engagement between July 22nd – August 4th
- Meetings with representatives and members from:
 - Council of Industries
 - Richmond Chamber of Commerce
 - Richmond Main Street
 - Association of United Richmond Housing Providers (AURHP)
 - Contra Costa Association of REALTORS
- Virtual business community meetings
 - Tuesday, July 28th at 10:00pm
 - Monday, August 3rd at 5:30pm
- Outreached via various methods and to business organizations
- Information posted on City's webpage
- Engaged in numerous exchanges with stakeholders via email and phone

Business Community Feedback

- Language is too complicated and additional clarification is needed
- Process feels rushed
- Bad timing due to COVID-19 impacts
- Don't mind paying their "fair share" but the City has to take into consideration the current fees paid by business to the City and the state of the economy
- Lack of authentic engagement and input

Business Community Feedback

- Concerned that council will not reduce rates or make other changes once approved by voters
- Establish a committee and consider special election or Nov. 2022
- Berkeley model as ceiling
- Possibility of phased implementation
- Staff should consider including 1-10 units as mom & pop property owners under the “small business” classification

Rental Property Fees & Considerations

- Current business license
- Rent control fees
- Rental inspection fee
- Rent moratorium
- Fire inspection fees
- Property taxes
- Sewer fee increases

Other Businesses Fees & Considerations

- Current business license
- Property taxes
- Utility User Taxes
- 1% for public art on private projects
- Impact fees
- Various planning fees
- Inclusionary housing ordinance
- Local employment
- Business opportunity
- Ban the box
- Living wage and minimum wage
- Zoning ordinance

Proposed Ballot Question

Current: To maintain the quality of life in Richmond by providing essential City services, including 911 emergency response, pothole/street repair, homeless and youth services and other general services, shall an ordinance amending the City business tax structure to use a range from 0.06% to 5.00%, charging the highest rates on cannabis businesses and those with high gross revenue and the lowest rates for small businesses, providing approximately \$6.2 million annually until ended by voters, be adopted?

Proposed: To maintain quality of life in Richmond by continuing certain City services, including 911 emergency response, pothole/street repair, homeless/youth services and other general services, shall an ordinance amending the City's business tax to charge businesses 0.06% to 5.00% of gross receipts, and other rates as stated, with the highest rates on cannabis, firearm and the biggest businesses, providing approximately \$6.2 million annually until ended by voters, be adopted?

Recommended Additions

Franchise Fees - Exemption

- Reflect current exemption for franchisees
- Any public utility paying franchise payments to the City
- Any person or business paying sums under a contract with the City for the privilege of collecting solid wastes

Employee Definition

"Employee" means either: (1) each and every person engaged in the operation or conduct of any business, whether as owner, member of the owner's family, partner, associate, agent, manager or solicitor, and each and every other person employed or working in such business for a wage, salary, commission or room and board; or (2) any person who is regarded as an employee of a business for purposes of the workers' compensation laws of the State of California (including, without limitation, a real estate agent working for, or engaged by, a real estate broker) and which business is subject to the provisions of this Ordinance.

Add or Remove Exemptions

Recommended Action

REVIEW the draft measure for the November 3, 2020 ballot which would amend the City's business tax rate structure to authorize the City to tax businesses based on a range of .06% to 5.00% of gross receipts rather than rates based on the number of employees and either:

- (1) ADOPT a resolution placing the measure on the November 3, 2020 ballot; or
- (2) PROVIDE direction to staff on further revisions to the draft measure and continue engagement with the business community with the intent to place the measure on the ballot at a future election.

ADOPT a resolution with the recommended additions

Options Comparisons

- Current Richmond Based Business Tax Revenue: \$3,008,534
 - Rental: \$1.4M
 - Non-rental: \$1.6M

		Estimated Revenue from Proposed Ballot Measures				Proposed Rate Ranges	
		Regular Business	Rental Properties	Total Revenue	New Revenue	Non-Rental Business Rate Range	Rental Rate Range
Option 1	Proposed Richmond Model with Rental up to 1.0%	3,437,722	2,864,430	6,302,152	3,293,656	0.06% to 0.68%	0.5% to 1.0%
Option 2	Berkeley As a Floor with Rental up to 1.5%	3,437,722	4,296,645	7,734,367	4,725,871	0.06% to 0.68%	0.75% to 1.50%
Option 3	Berkeley As a Mid-Point with Rental up to 1.0%	2,216,683	2,864,430	5,081,113	2,072,617	0.03% to 0.54%	0.5% to 1.0%
Option 4	Berkeley As a Ceiling with rentals up to 0.75%	1,472,199	1,962,945	3,435,144	426,648	0.02% to 0.45%	0.325% to 0.750%
Option 5	Oakland Proposed Rates	2,813,896	5,030,286	7,844,183	4,835,687	0.06% to 0.55%	1.395%

Next Steps and 2020 Important Dates

If placed on Nov 2020 ballot and approved:

- Would take effect July 1, 2021
- Implementation (outreach and education, software, additional staffing, auditing, enforcement, etc.)

If postponed – Continued outreach and discussions per Council direction

Important Dates:

- | | |
|---------------------------------------------|---------|
| • Last day to place a measure on the ballot | Aug. 7 |
| • Last day to amend or withdraw a measure | Aug. 12 |
| • Impartial Analyses Due | Aug. 14 |
| • Last day to file Primary Arguments | Aug. 19 |
| • Election Day | Nov. 3 |

Thank you

