



Office of the City Manager

CONSENT CALENDAR
February 28, 2017

To: Honorable Mayor and Members of the City Council

From: *DWR* Dee Williams-Ridley, City Manager

Submitted by: Henry Oyekanmi, Director, Finance Department

Subject: Administration of Business License Tax Rate Increase (Measure U1, November 2016 Election)

RECOMMENDATION

Adopt a Resolution authorizing the City Manager to begin collecting the increased business license tax from 2017 revenues on larger landlords that was approved by the voters last November.

FISCAL IMPACTS OF RECOMMENDATION

On November 8, 2016, the voters passed Measure U1 to permanently increase the gross receipts tax on owners of five or more residential rental units from 1.081% to 2.880%. The increase is expected to raise approximately \$3,450,000 annually. Increasing each year as rents increase and as buildings exempted for 12 years become taxable. Administrative cost of implementing the tax is not to exceed \$350,000 annually.

Typically, Business License Tax is based on a calendar year's gross receipts (January – December) from the previous year. For example, the tax for calendar year 2016 (January 1, 2016 to December 31, 2016) is due on January 1, 2017. If the tax is not paid by February 28, 2017, a penalty is imposed on March 1, 2017.

The administration and collection for Measure U1 will require additional resources such as researching and targeting the specific criteria to determine who will be required to pay the tax, hiring staff, configuring system changes (IT programming), and other tasks needed to implement the measure. Measure U1 broadens the Business License Tax requirements to collect gross receipts based on total number of units owned within the City instead of the number of units on each parcel. The current system is programmed and configured to collect the tax based on the units on a parcel. Consequently, the current system will need to be updated or a new software will need to be sourced that will accommodate the changes. Apart from system needs, a multi-departmental coordination with Health, Housing and Community Services; Berkeley Housing Authority (BHA); Rent Board; and Public Works will be required in order to capture all the businesses or individuals that are supposed to pay the tax. These efforts, which will take approximately four to six months, will need to be complete before the tax can be

administered. The data will help in the outreach effort that will be part of the initial phase in the administration of the tax.

CURRENT SITUATION AND ITS EFFECTS

Economic studies show that since the implementation of vacancy decontrol in 1999 there has been a significant transfer of income from tenants to landlords. Real inflation-adjusted rents have gone up by more than 50%, which means that tenants are paying landlords an extra \$120 million a year over and above increases necessary for owners to make a fair return on their property. This is resulting in skyrocketing rents and renters paying a larger percentage of their income for housing. In many cases these windfall profits have not been reinvested in properties to increase habitability and address housing code issues. Rising rents are creating a housing affordability crisis which threatens the City’s economic and cultural diversity as well as increases homelessness.

On May 31, 2016, the City Council unanimously placed a Business License Tax increase on the November ballot. The Council-sponsored tax measure would raise the Business License Tax on rental housing of five or more units from the current level of 1.081% to 2.880% of gross receipts. The amount raised has the potential to create roughly 400 truly affordable homes in Berkeley over the next 10 years and also fund emergency rental assistance.

Per the passage of Measure U1 on November 8, 2016, the annual gross receipts tax on owners of five or more residential rental units has increased from 1.081% to 2.880%. As a result, roughly \$2,980,000 to \$3,450,000 will be raised annually. The annual administrative cost to implement the tax shall not exceed \$350,000.

Section 9.04.240 of Berkeley Municipal Code is amended to read as follows:

Section 9.04.240 Rates-General.

The base rate for gross receipts business license taxes is established at one dollar and twenty cents for each one thousand dollar gross receipts per year.

Industry Classification Category	Tax Basis	Base Rate Factor	Per Year Tax rate for \$1,000	Section Reference
Administration headquarters	Gross payroll	1.0	1.2	9.04.190
Business, personal repair services	Gross receipts	1.5	1.8	9.04.160
Medical Cannabis Businesses	Gross receipts	25.00	25.00	9.04.136
Non-Medical Cannabis Business	Gross receipts	83.25	100.00	9.04.136
Construction contractor	Gross	1.5	1.80	9.04.180

	receipts			
Firearms and firearm ammunition	Gross receipts	125.0	150.00	9.04.177
Grocer (retail or wholesale)	Gross receipts	0.5	0.60	9.04.140
Manufacturing	Value added	1.0	1.20	9.04.185
Miscellaneous business	Gross receipts	2.0	2.40	9.04.220
Motor vehicle sales	Gross receipts	1.0	1.20	9.04.145
Nonprofit organizations	Per square foot	Not applicable; see section 9.04.305	Not applicable; see section 9.04.305	9.04.305
Private rubbish haulers	Gross receipts	125.0	150.00	9.04.176
Private franchised/recycling rubbish haulers	Gross receipts	1.50	1.80	9.04.176
Professional-Semiprofessional	Gross receipts	3.0	3.60	9.04.165
Professional sports events	Gross receipts	83.33	100.00	9.04.175
Recreation and entertainment	Gross receipts	3.75	4.50	9.04.170
Rental of real property (except five or more dwelling units)	Gross receipts	9.0	10.81	9.04.195
Rental of five or more dwelling units	Gross receipts	24	28.80	9.04.196
Retail trade	Gross receipts	1.0	1.20	9.04.135
Wholesale trade	Gross receipts	1.0	1.20	9.04.150

ENVIRONMENTAL SUSTAINABILITY

There are no identifiable environmental effects or opportunities associated with the subject of this report.

BACKGROUND

On November 8, 2016, Measure U1 passed. It permanently increased the gross receipts tax on owners of five or more residential rental units from 1.081% to 2.880%

and is expected to raise approximately \$3,450,000 annually. The administrative cost to implement this tax is not to exceed \$350,000 annually.

RATIONALE FOR RECOMMENDATION

City staff needs time to implement the new tax rate.

ALTERNATIVE ACTIONS CONSIDERED

None.

CONTACT PERSON

Henry Oyekanmi, Director, Finance Department, 510-981-7301

Attachments:

1: Resolution

RESOLUTION NO. ##,###-N.S.

AUTHORIZING THE CITY MANAGER TO ADMINISTER ORDINANCE NO. 7,523-N.S. INCREASING THE BUSINESS LICENSE TAX ON OWNERS OF FIVE OR MORE RESIDENTIAL RENTAL UNITS FROM 1.081% TO 2.880% WITH AN EFFECTIVE COLLECTION DATE FROM JANUARY 1, 2017

WHEREAS, on May 31, 2016, the City Council unanimously placed a business license tax increase on the November ballot. The Council-sponsored tax measure would raise the business license tax on rental housing of five or more units from the current level of 1.08% to 2.88% of gross receipts. The amount raised could help create roughly 400 truly affordable homes in Berkeley over the next 10 years and also fund emergency rental assistance; and

WHEREAS, on November 8, 2016, the voters passed Measure U1 to permanently increase the gross receipts tax on owners of five or more residential rental units from 1.081% to 2.880%. The increase is expected to raise approximately \$2,980,000 to \$3,450,000 annually. Increasing each year as rents increase and as buildings exempted for 12 years become taxable. Administrative cost of implementing the tax is not to exceed \$350,000 annually; and

WHEREAS, on December 8, 2016 City Council passed Ordinance No. 7,523-N.S. increasing the business license tax on owners of five or more residential rental units from 1.081% to 2.880%, prohibiting the pass-through of the tax to most tenants, and directing the Housing Advisory Commission to make recommendations regarding additional expenditures for affordable housing.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that the City Manager is authorized to begin collecting the increased taxes due under Ordinance No. 7,523-N.S. as of January 1, 2018.

