

DATE ISSUED: June 21, 2004

REPORT NO. 04-138

ATTENTION: Honorable Mayor and City Council  
Docket of June 21, 2004

SUBJECT: Business Tax and Rental Unit Tax Processing Fee

REFERENCE: June 9, 2004 Fiscal Year 2005 Proposed State Impact Solutions  
Memorandum

#### SUMMARY

THIS IS AN INFORMATION ITEM ONLY. NO ACTION IS REQUIRED ON THE PART OF THE COMMITTEE OR THE CITY COUNCIL.

#### BACKGROUND

The City Manager has recommended the implementation of a \$25 Business Tax and Rental Unit Tax Processing Fee as one of the solutions to offset the \$17.3 million State budget reduction.

On May 17, 2004, the City Treasurer's staff met with representatives from the Economic Development Department and the Business Improvement District Council to discuss potential fees and charges. At this meeting, Business Improvement District Council representatives indicated that the Business Improvement District Council was considering the endorsement of a business tax processing fee of up to thirty dollars (\$30).

On May 27, 2004, the Business Improvement District Council sent a letter to the City Manager announcing its unanimous approval of a motion endorsing an annual \$30 cost recovery fee associated with San Diego's Business Tax Certificate.

The City Treasurer currently administers the collection of the City's business tax and rental unit business tax and handles collection of Business Improvement District assessments. The annual fee for the business tax certificate is \$34 for a business with 12 employees or fewer and \$125 plus \$5 per employee for a business with 13 employees or more. The annual rental unit business tax rates are: \$50 plus \$5 per unit for single family or condominium parcels; \$50 plus \$5 per unit for an apartment/multi-unit complex (2 to 10 units), \$57 plus \$9 per unit (11 to 100 units), \$150 plus \$8 per unit (101+ units); \$50 plus \$5 per unit for hotel/motel (1 to 250 units), \$57 plus \$9 (251+ units); and \$40 plus \$3 per unit for a mobile home.

Currently there are approximately 139,000 businesses operating in San Diego. The current business and rental unit taxes are for revenue generating purposes to the General Fund as a whole and require voter approval to be increased. The current taxes generate \$11 million to the General Fund.

## DISCUSSION

In order to recover the costs associated with the collection and administration of the taxes, a processing fee is being proposed. The processing fee would reimburse the cost to process business tax applications, business tax renewals and rental unit business tax billing statements.

A cost recovery fee can be authorized by the City Council and implemented by the City Manager. The City's annual cost to operate the Business and Rental Unit Tax programs, including overhead, totals approximately \$3.5 million. Those costs include the collection and processing of business tax and rental unit tax payments, printing and postage fees, computer systems and overhead costs. Spreading that cost over the approximately 139,000 businesses operating in San Diego yields a processing fee of \$25. An annual review of the fee, per Administrative Regulation 95.25, would ensure that the fee is covering the cost of providing the service.

The fee is expected to generate approximately \$3.5 million in revenue annually. However, due to the expected implementation in August of 2004, Fiscal Year 2005 revenue would be approximately \$3.1 million.

Examples of the application of a processing fee to the business tax and rental unit tax are as follows:

	<u>Current Tax</u>	<u>Proposed Fee</u>	<u>Total</u>
Business Tax			
Small business (<12 employees)	\$34	\$25	\$59
Large business (13 employees)	\$190	\$25	\$215
Rental Unit Tax			
Single family/condominium	\$55	\$25	\$80
Apartment (10 units)	\$100	\$25	\$125

Respectfully submitted,

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Mary Vattimo  
City Treasurer

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Patricia T. Frazier  
Deputy City Manager

FRAZIER/VATTIMO/CEM