

# Agenda Report

December 6, 2010

**TO:** Honorable Mayor and City Council

**THROUGH:** Finance Committee

**FROM:** Finance Department

**SUBJECT: CONTRACTING AND BUILDING TRADES BUSINESS LICENSE TAX  
REBATE**

## **RECOMMENDATION:**

It is recommended that the City Council approve an abatement credit for two years to the contractors' license fees under the *Contracting and Building Trades Business License Ordinance 5.16.180* in the amount of 30 percent for the first year and an additional 30 percent in the second year. It is recommended that after the two year abatement period, staff will conduct an evaluation of its General Engineering, General Contractor, and Specialty Contractor & Other Building Tradesman license fees and compare them to other jurisdictions to determine a recommendation by May 2013.

## **BACKGROUND:**

At the request of the City Council, staff undertook a review of the business license taxes charged to contracting and building trades businesses. In their research, staff was unable to locate information that substantiates how the rates were initially calculated. The City first established tax code *Section 5.16.180 (Contracting and Building Trades)* in 1966.

Per the City ordinance, the City Council approved incremental adjustments to the tax rate consistent with changes in the Consumer Price Index (CPI). Since 1966, the compounded annual growth rate for Contracting and Building Trade License Tax has been 1.47 percent. Over this same period, the average annual increase in CPI has been 4.44 percent. While the history of this specific tax is not easily reconstructed, it is clear that the City has not kept up with inflation over the last 44 years yet the City's current fee is high based on a survey of comparable area cities (Attachment A). The cities surveyed include Alhambra, Arcadia, Burbank, Glendale, Monrovia, Pomona, Santa Monica, San Marino, and West Covina. Although the methodologies used vary for the cities surveyed, Pasadena's rates are significantly higher than surrounding cities. Council members have voiced concern about the City's competitiveness in the area

given the high fee relative to surrounding cities for contractor and building trade business license taxes. Based on the survey and to address concerns raised by council, staff recommends a rebate program consisting of 30 percent of the current cost for General Engineering Contractors, General Contractors, Specialty Contractors and other Building Tradesman effective July 1, 2011 and an additional 30 percent effective July 1, 2012. Staff will conduct a comparison analysis of surrounding cities and bring a recommendation to council in May 2013 for future implementation of the program.

The table below shows current tax amounts compared to the out of pocket cost to the customer after the proposed rebate in the first year.

	<b>Current Tax Rate</b>	<b>Proposed Cost to Customer (July 1, 2011)</b>	<b>Abatement Savings (2011)</b>	<b>Proposed Cost to Customer (July 1, 2012)</b>	<b>Abatement Savings (2012)</b>
General Engineering Contractor	\$1,147.61	\$ 803.33	\$ 344.28	\$ 459.04	\$ 688.57
General Contractor	765.07	535.55	229.52	306.03	459.04
Specialty Contractor & Other Building Tradesman	573.82	401.67	172.15	229.53	344.29

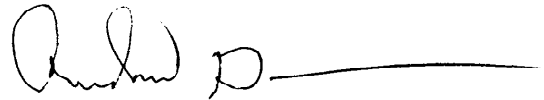
**COUNCIL POLICY CONSIDERATION:**

This action supports the City Council's strategic goal to maintain fiscal responsibility and stability.

**FISCAL IMPACT:**

The contracting and building trades tax averages approximately \$900,000 annually in revenues to the General Fund (Attachment B). This recommendation will cause a \$270,000 revenue loss to the General Fund in the first year and will generate a loss of \$540,000 in the second year of the proposed rebate program which will negatively impact the current FY 2014 General Fund financial plan; however, the estimated impact does not take into account revenue increases that may be generated from increased activity resulting from lowering the fee which is difficult to determine .

Respectfully submitted,



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Approved by:



MICHAEL J. BECK  
City Manager

Attachments:

- Attachment A – Survey Comparison
- Attachment B – Contracting & Building Trades Taxes Received

**ATTACHMENT A**

**Survey Comparison of Contracting & Building Trades Taxes With Other Cities**

	Rates Structures Comparable to Pasadena				
	Pasadena [1]	Glendale [2]	Arcadia [3]	Pomona	San Marino
General Engineering	\$1,147.61	\$300.00	\$244.30	\$49 + cost of building permit	\$276.00
General Building Contractors	\$765.07	\$200.00	\$244.30	same as above	\$215.00
Specialty Contractor & Other Building Tradesman	\$573.82	\$100.00	\$244.30	same as above	\$152.00

	Rates Structures Not Comparable to Pasadena		
	Burbank [4]	Monrovia [5]	West Covina
General Engineering	No business license is required for construction, tax is levied on the valuation of the job at a rate of \$0.80 per thousand of the valuation.	Business license tax is \$145, plus \$11 for each employee, family member or partner working at business	\$16 + building permit fee or their contracting fee or; \$94.75 where there are no other permit fees required.
General Building Contractors	same as above	same as above	same as above
Specialty Contractor & Other Building Tradesman	same as above	same as above	same as above

	Santa Monica	Alhambra [5]
General Engineering	Does not charge fees based on these criteria. Based upon what City Departments are impacted, size of project, and the permits associated with the building.	Business license tax is based upon gross receipts ranging from tax of \$83 to \$1,885.
General Building Contractors	same as above	same as above
Specialty Contractor & Other Building Tradesman	same as above	same as above

**Footnotes:**

- [1] A six-month license is 60% of the annual tax, and a three-month license is 30%.
- [2] Each fiscal quarter the annual fee rate is decreased by 25%.
- [3] There is a one-time fee of \$244.30 to the contractor. Each additional vehicle used by the contractor incurs a charge of \$10.
- [4] Minimum tax is \$10 and the maximum tax is \$460.
- [5] Applies only to businesses located within Monrovia. Additional fees such as Fire Inspection Fee, Application Fee or Assessment District

## Attachment B

### Contracting & Building Trades Taxes Received by Fiscal Year

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	<b>FY2006</b>	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>	<b>FY2010</b>
General Engineering Contractors	\$101,795	\$109,937	\$137,301	\$143,898	\$124,692
General Building Contractors	398,972	376,314	418,072	410,348	343,767
Specialty Contractor & Other Building Tradesman	447,158	472,225	471,902	545,049	403,349
<b>Total</b>	<b>\$947,925</b>	<b>\$958,476</b>	<b>\$1,027,275</b>	<b>\$1,099,295</b>	<b>\$871,809</b>

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