

Agenda Report

January 12, 2015

TO: Honorable Mayor and City Council

THROUGH: Finance Committee

FROM: Office of the City Manager

SUBJECT: AMENDMENT TO THE SCHEDULE OF TAXES, FEES, AND CHARGES TO INCLUDE A REDUCED BUSINESS LICENSE TAX FOR QUALIFIED FIRST YEAR BUSINESSES

RECOMMENDATION:

It is recommended that City Council amend the Schedule of Taxes, Fees, and Charges to include a reduced business license tax for qualified first year businesses located in Pasadena.

BACKGROUND:

On October 20, 2014, in response to the State of California's elimination of Enterprise Zone (EZ) programs and the loss of revenue to support local incentives, City Council directed staff to discontinue all local EZ related business incentives. Along with this action, City Council approved the concept of a more modest incentive focused on certain first year business license applicants. As a result, this report provides for the necessary action to amend the Schedule of Taxes, Fees, and Charges to include a reduced business license tax for qualified first year businesses (Attachment A). Consistent with the goals of the Economic Development Strategic Plan, the recommended adjustment is designed to encourage new small start-up businesses in commercial areas throughout the City. The reduced rate will be one dollar for qualifying businesses. This approach can be equated to creating an introductory rate for early stage businesses that could otherwise start in another city.

To qualify for the reduced tax, the business must meet all of the following criteria:

1. Be in a commercial or industrial zoned area (defined in PMC Chapter 17);
2. Have five or fewer employees and;
3. Have received a 2012 North American Industry Classification System (NAICS) designation in categories 23, 31, 32, 33, 51, or 54.

The NAICS categories are used by Federal, State, and local agencies. The selected categories: Manufacturing (31-33), Information (51), Scientific, Technical, and

Professional Services (54), and Construction (23) represent the businesses that are designing, engineering, and manufacturing products associated with high-technology and innovation economy and most often create higher paying jobs. The construction category is also added to capture potential spin-off entrepreneurs from large local construction/engineering companies, and to encourage small contractors who might support hire local efforts. Retail, wholesaling, fast food, personal services, and businesses classified in the remaining NAISC categories would not be eligible for the first year reduction and would pay standard business license rates. Also excluded from the first year business license reduction are: uses under PMC § 5.16.190 (rental accommodations), PMC § 5.16.270 (operation of nonresidential building), home-based businesses, seasonal sales permits, or those with no fixed location of business. This reduction will not be adjusted annually by CPI and any other applicable City fees and taxes will still apply.


COUNCIL POLICY CONSIDERATION:

This proposed action is consistent with the City Council's Strategic Plan Goal to: (1) maintain fiscal responsibility and stability and (2) support and promote the quality of life and local economy.

FISCAL IMPACT:

The revenue decrease caused by the reduction to first year business license tax for new small businesses is anticipated to be less than \$30,000 (6027-101-952100) per year.

Respectfully submitted,



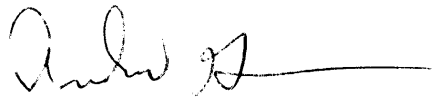
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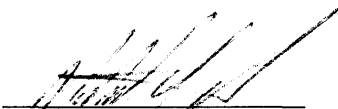
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