

# 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

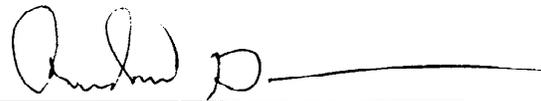
**COUNCIL POLICY CONSIDERATION:**

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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Department of Finance

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Approved by:



MICHAEL J. BECK  
City Manager

Attachments:

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



**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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