



To: Anne McEnerny-Ogle, Mayor
City Council

From: Eric Holmes, City Manager

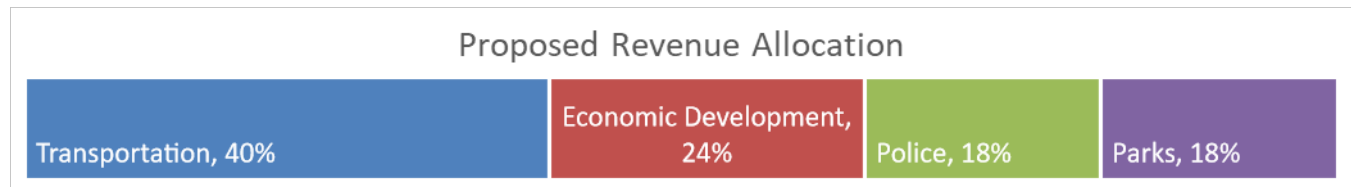
Date: November 2, 2022

RE: **2023-24 Biennial Budget – Business License Surcharge Update**

Executive Summary

The 2023-24 Biennial Budget includes a recommendation for a significant update to the City's Business License Surcharge (BLS) program. The update is intended to expand and diversify the tax base, account for inflation since program inception (2007), expand uses of the revenue, enhance equity in overall tax structure and generate new, additional revenue over a multi-year period to support expansions in transportation, police, economic development and parks service areas. The current BLS program update is forecasted to generate approximately \$6.3 million in new revenue in the coming biennium (for a total \$18.6 million), which equates to approximately 2.1% of total general street and fire fund revenue. On full implementation, the revamped BLS program as recommended would generate approximately \$11.1 million of new additional revenue annually.

The recommended allocation of this revenue is:



Background

Current state: The BLS was originally adopted in 2007 to fund transportation investments at a rate of \$50 per FTE per year. It was amended in 2016 to add \$20 dedicated to additional transportation improvements and in 2017 to add another \$20 dedicated to police funding. As of 2022, the total annual fee is \$90 per FTE. The cap on the maximum number of FTEs subject to the surcharge was lifted in 2020. Since its inception, the fee has not been adjusted for inflation. As part of the City's business relief pandemic response the City suspended the BLS in its entirety between Spring 2020 and March 2022, and it remains suspended through the end of 2022 for businesses hardest hit by state pandemic mandates. This suspension resulted in approximately \$5.5 million in foregone revenue.

Vancouver currently imposes business licensing requirements and associated fees on all businesses with gross revenues above \$12,000 in the City. The City's business license program is not a regulatory license, but rather a mechanism to gather data, support administrative functions associated with the licensing program and generate revenue for municipal purposes. The current program includes two components:

- A base business license fee of \$200 per location per year for all businesses (generates approximately \$2 million annually)
- Business License Surcharge (BLS) (also known as “head tax”) that is a \$90 annual fee per full time equivalent employee (FTE) employed by businesses with gross annual revenues over \$12,000 (generates \$4.2 million annually).
- Nonprofit organizations pay the \$200 per location fees, but do not pay the business license surcharge fees.

In a “normal” year (pre-pandemic), the program generates approximately \$6.2 million annually distributed as follows: 22.7% to General Fund unrestricted revenue, 23.4% to Police and the remaining 53.9% to Transportation.

The City has been considering changes to our business taxes to generate new, additional revenues since the Stronger Vancouver initiative was launched in 2017¹. In this context, the City conducted a range of analysis of our tax base and revenue structure and found that generally the City of Vancouver’s overall business taxes are lower than comparably sized and positioned Cities in Washington and the greater metro area. Further, this analysis found that the inherent attributes of major revenue systems that support Vancouver’s municipal services - such as property tax - rely disproportionately on residential payers, an imbalance that has increased over time.

While further deliberations associated with Stronger Vancouver were placed on hold during the pandemic (and as noted above BLS charges were temporarily suspended for much of the pandemic as part of the City’s business assistance response), the recommended budget built on that analysis and engagement and includes a refresh to the business licensing program.

Leading up to publication of the recommended budget, the City Manager conferred with local business advocacy organizations about potential changes to the BLS program. These conversations informed the recommendation included with the published budget on October 1. Subsequent deliberations by the City Council during budget workshops this fall, as well as further engagement with the business community have resulted in two updated options to refreshing the BLS program outlined in the presentation materials, the difference between the two being the definition of annual hours that qualifies as a Full Time Employee (FTE). If an update to the BLS program is adopted by Council, the changes are anticipated to become effective April 2023.

These updated recommended changes to the program would result in:

- 17% of current small businesses receiving a tax reduction (~3,000 businesses) from current
- A lower surcharge than originally proposed
- Slower growth in the surcharge over a longer implementation period (2030)
- Maintaining simple administration - same as current methodology

We are scheduled to review and finalize program changes with City Council on November 7 to return for first reading and public hearing on November 14 and 21, respectively. As always, I welcome any questions members of Council may have and I look forward to discussion on November 7.

¹ In the context of the Stronger Vancouver initiative, between 2017 and 2020 the City engaged in a robust community based effort to explore a project, service and revenue package to enhance city services over a multi-year period. In that context, the City considered a range of business taxes, including business and occupation, several iterations of a business license surcharge, and the admissions tax.