

The City of Sausalito: Expanding Revenue Through Business Tax Expertise

In challenging times, municipalities are often forced to consider both increasing taxes and decreasing service levels. Both of these practices negatively impact and cause concern to the business community and the public. The City of Sausalito, right across from the Golden Gate Bridge in San Francisco, recently turned to the business tax expertise of HdL Companies to:

- Find additional revenue without overburdening businesses or consumers
- Reduce the costs of administration without decreasing services
- Simplify the tax code, yet increase compliance and oversight

HdL's efforts gained the City \$1 million per year in revenue, created tax equity for businesses, kept the loyalty of businesses and voters, and freed municipal staff for other duties besides administering a complex, inefficient code.

PROBLEM

Over 125 years of growth and change had created a complex Municipal Code in Sausalito with an outdated, idiosyncratic business tax structure which was generating too little revenue to meet the City's modern needs.

The City's Assistant City Manager and Administrative Services Director recognized the difficulties that Sausalito faced. "Typically, small cities do not have the dedicated resources to efficiently manage programs like Business License Tax or Transient Occupancy Tax administration and collection. It's also a challenge to find the staff resources and expertise to dig deep into analysis and trends for the City's Property Tax and Sales Tax revenues," the City stated.

As Josh Davis, HdL's Assistant Director of Tax and Fee Administration, explains, "HdL researches the data that enables cities to change their tax structures without causing businesses to flee or antagonizing the community. We work directly with the existing city team to recommend ways to modernize ordinances, clear up any inadequacies, and create efficiencies in tax collection. We then educate the public so they understand the changes they will be voting on and why their support is important. We want cities to be able to generate the revenue that's essential for their survival."

SOLUTION

Research

HdL closely studied the existing Municipal Codes related to business licensing in Sausalito, looking for:

- Potential conflicts with operational practices
- Areas to modernize code language
- Impact on staff efficiency
- Areas not in line with best practices of California cities
- Potential loopholes or revenue leaks

Among other findings, HdL's research revealed that the tax ordinance contained the potential for major revenue leaks. One of the revenue leaks that HdL uncovered manifested itself by a discrepancy between sales tax and business license revenues. Davis explains, "The steady increase of revenues from sales taxes was a strong indication that business revenue was growing in the City, but the City wasn't participating in that growth as much as they would if the tax structure was better aligned with gross receipts."

HdL also compared Sausalito's revenue stream to that of neighboring cities and of comparable cities throughout California with tourist economies. As the City states, "HdL has access to information about recent business license tax ordinances throughout California. Developing those comparisons would have taken much more time in-house." HdL research showed where Sausalito could modify its own ordinances to raise more revenue without driving businesses away.



Analysis

HdL analyzed the City of Sausalito's current revenues and fee structures to determine revenue by business category and the year-to-year change in revenue from business licenses and sales tax. The team examined how different changes to the fee structure might affect the City and business community, including increasing fairness, bolstering revenue, and simplifying the role of City staff.

Davis stated, "Our investigation determined that the current business tax structure, with 22 business license categories, was both outdated and unfair to small businesses. It had also become so complex that the City staff was forced to make interpretations and decisions that strained their resources and were difficult to apply consistently."

Develop Options

HdL offered several recommendations for generating more revenue through business licensing, including adding a percentage base increase to the existing fees. Although that change was the simplest to implement, the HdL team concluded that it did not account for continued economic growth, the complexity of business license categories, or the burden on City staff and the business community.

Ultimately the City chose HdL's recommendation to create four business license categories instead of their current 22 and to end the exemption for two business categories. In addition, the City stated "HdL helped us modernize the business license tax ordinance, including areas that we would have overlooked without their analysis."

HdL projected that the chosen option would increase revenue to the City by \$1 million per year. Other changes would modernize the code, simplify administration and enforcement, and increase fairness—thus achieving or exceeding every one of the City's goals.

Education and Advocacy

With over 37 years of experience nationwide, HdL understands the concerns of City Managers and administrators, businesses, and the public when changes are proposed to City tax structures.

Josh Davis presented HdL's report on the Business License Tax Ordinance to the City Council's Finance Committee, the City Council at large, and the general population. The City noted, "Josh's years of experience in this area added credibility to the discussion of the new ordinance. HdL delivered comprehensive and accurate information quickly, including answers to complex, technical revenue questions. The HdL team provided an enormous amount of work behind the scenes, maintaining on-going communication with the local business community, and their report was used by the City to develop the ballot measure that we set before the voters."

As a result, the new Business License Tax Ordinance received resounding support, approved by 65% of voters, far above the simple majority that the City needed.

NEXT STEPS

"HdL's estimate of additional revenues to be generated by the new business license ordinance was very accurate," the City reported. "It increased business license tax revenues to Sausalito by \$1 million per year, delivering the added revenues the City needed for the General Fund budget to stay in balance."

Impressed by the knowledge and expertise that HdL brought to the table, the City of Sausalito contracted with HdL's turnkey business license tax and transient occupancy services to help with ongoing business license tax collection, renewals, notices, analysis, and review, freeing up many additional hours of staff time. HdL helps to resolve individual reporting matters, keep the City up-to-date on current best practices, and ensure its businesses stay in compliance.

"These services are invaluable for small cities, but worth considering by any community that is looking to best utilize their staff resources. HdL truly operates as an extension of City staff, taking this burden off the City's plate. I am a big fan and supporter of HdL's professionalism, expertise and exceptional customer service, and I admire their ethics, integrity and full commitment to their client agencies." stated Sausalito's then Assistant Manager.

THE SUCCESSES

HdL was founded by local government finance professionals with the singular mission of helping local government leaders maximize their revenue sources. The HdL Team includes experienced business tax department supervisors, certified revenue officers and local government leaders who have served at all levels of local and state municipal organizations. Having walked in your shoes, the HdL team is uniquely prepared to help achieve your strategic goals.

Cities and counties across the nation have benefited from HdL's extensive resources and expertise for over 37 years. HdL is proud to be a corporate sponsor of the following organizations:

- League of California Cities
- California State Association of Counties
- California Society of Municipal Finance Officers
- California Municipal Revenue and Tax Association
- Municipal Management Association of Northern California
- Municipal Management Association of Southern California
- Alabama League of Municipalities
- Colorado Municipal League
- Colorado City and County Management Association
- Colorado Government Finance Officers Association
- Georgia Association of Business License Officials
- Georgia City-County Management Association
- Texas Municipal League
- Government Finance Officers Association of Texas
- Texas City Management Association

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