

MEMO

To: Downtown San Mateo Association Board Members
From: Sara Mares/NBS
Date: October 5, 2022
Re: Update to Business Improvement District Research and Analysis from February 2020

Executive Summary

Downtown San Mateo has gone through many changes over the past years, with more changes to come. Community leaders realized it was time to review the level of services provided, budget and method of funding within the Downtown Business Improvement Area (the “DBIA”). In particular, there has been a desire to update the fee structure so that it is more equitable, based on the benefits offered by the services that are provided.

As with many downtowns, there is a shift occurring in retail from goods to experiences, such as shopping to dining. In the City of San Mateo (the “City”), there has also been a pronounced increase in office space and foot traffic from those workers and office users. At the same time, there has been a natural increase in the cost of operations (Downtown San Mateo Association [the “DSMA”] staff, cleaning, event production) while revenues have remained flat.

Background – Downtown Business Improvement Area

The City established the DBIA in 1986, pursuant to the *Parking and Business Improvement Area Law of 1979*, to levy an annual assessment on businesses within the DBIA in order to provide decorations, promote public events, furnish music, and generally promote business activities within the DBIA. The DSMA is the advisory board appointed by the City Council of the City (the “Council”) to make recommendations to the Council on the expenditure of revenues derived from the levy of assessments, on the classification of businesses, and on the method and basis of levying the assessments.

The *Parking and Business Improvement Area Law of 1979* was repealed and replaced with the *Parking and Business Improvement Area Law of 1989 (the “PBIA Law”)*, and, as such, the DBIA is currently subject to Chapters 3, 4, and 5 of the PBIA Law, covering (1) Assessments, (2) Modifications to Boundaries, Assessments, Improvements, or Activities, and (3) Disestablishment, respectively. Pursuant to the PBIA Law, the City must renew the DBIA each year

More recently, the DSMA has focused on beautification and cleanliness, public outreach, promotion of the DBIA, and events. The City collects the annual assessment—on behalf of the DSMA—from each business within the DBIA as part of the annual business license tax, which provides the majority of the revenue needed to pay for these services and activities. Efforts to

review the funding have been ongoing. Please refer to Appendix C for a copy of the initial memorandum prepared in analyzing the funding options.

Rate Analysis

In order for the DSMA to generate desired revenue of \$400,000, NBS recommends the following rates for each of the following categories in Zone 1 and Zone 2, based on the discussions with the DSMA and our understanding of the area:

Zone 1	
Business Type	Proposed Rate
Retail: \$0 - \$150,000	\$200.00
Retail: \$150,001 - \$400,000	400.00
Retail: \$400,001 - \$600,000	800.00
Retail: \$600,001 - \$1,000,000	1,150.00
Retail: \$1,000,001 +	1,500.00
Financial	1,550.00
Mills Health Center	6,050.00
Professional: Up to 5 Employees	550.00
Professional: 6-15 Employees	1,200.00
Professional: 16-35 Employees	2,300.00
Professional: 36-75 Employees	3,050.00
Professional: 76+ Employees ¹	3,050.00
Service: Up to 5 Employees	400.00
Service: 6-15 Employees	1,150.00
Service: 16-35 Employees	1,700.00
Service: 36-75 Employees	2,300.00
Service: 76+ Employees ²	2,300.00

1 - Plus \$14.00 per employee over 75 employees.

2 - Plus \$10.00 per employee over 75 employees.

Zone 2	
Business Type	Proposed Rate
Retail: \$0 - \$150,000	\$100.00
Retail: \$150,001 - \$400,000	200.00
Retail: \$400,001 - \$600,000	400.00
Retail: \$600,001 - \$1,000,000	575.00
Retail: \$1,000,001 +	750.00
Financial	775.00
Mills Health Center	n/a
Professional: Up to 5 Employees	275.00
Professional: 6-15 Employees	600.00
Professional: 16-35 Employees	1,150.00
Professional: 36-75 Employees	1,525.00
Professional: 76+ Employees ³	1,525.00
Service: Up to 5 Employees	200.00
Service: 6-15 Employees	575.00
Service: 16-35 Employees	850.00
Service: 36-75 Employees	1,150.00
Service: 76+ Employees ⁴	1,150.00

3 - Plus \$7.00 per employee over 75 employees.

4 - Plus \$5.00 per employee over 75 employees.

Based on information provided by the City, the following table shows the number of businesses within each basic category:

Business Type	Total
Financial	11
Mills Health Center	1
Professional	176
Retail	166
Service	128
Total	482

The business type categories are described in more detail below:

Financial: includes but not limited to businesses in the financial industry such as money management, payments, digital banking, banks, savings and loan companies, credit unions, and finance companies

Mills Health Center: Voluntarily contribution – specifically the business identified

Professional: includes but not limited to businesses that offer services that are highly specialized and typically require licensing and regulations. Professional service providers and information-based businesses such as software publishers, data processing, network hosting and related services, internet publishing and broadcasting and web search portals, venture capital, insurance agencies and brokerage, real estate agents and brokers, offices of lawyers, accounting, architectural, engineering advertising, translation and interpretation services, veterinary services, offices of physicians, offices of dentists, and other health practitioners

Retail: includes but not limited businesses that have goods and food for sale including automotive vehicles and parts dealers, home furnishing stores, jewelers, electronics and appliance stores, building material and garden equipment and supplies dealers, food and beverage stores, full-service restaurants, limited service restaurant, fast food restaurants, cafeterias, dessert and snack establishments, bars, gasoline stations, clothing and clothing accessories, sporting goods, hobby stores, music instruments, book stores, general merchandise store, wireless phone stores and similar

Service: includes but is not limited to providers of personal and business services such as hair salons, nail salons, lock smiths, dry cleaners, auto service and maintenance shops, gyms, vacuum repair shops, educational, childcare, electronic equipment repair, personal care services, and similar

Please refer to Appendix A to see the factors assigned to each Business Type in each Zone.

Please refer to Appendix B to see how each Business License Description was categorized.

Conclusion

As discussed within this memo, the business landscape in the Downtown San Mateo area has changed since the original DBIA was formulated. There has been a pronounced increase in office space and foot traffic from those workers and office users. Meanwhile, there has been a natural increase in the cost of operations while revenues have remained flat. Due to the DSMA's desire to provide increased services and improved equity among the payors for those services, there is a need for increased revenue.

Appendix A
Downtown San Mateo Association
Downtown Business Improvement Area
Proposed Assessment Rates for FY 2023/24 Assuming a Budget of \$400,000, Zone 2 Factor of 50%

Business Type	Zone 1				
	Current Structure		Revised Structure		
	FY 2022/23		FY 2023/24		
	Benefit Factor	Rate	Benefit Factor	Rate @ \$400k	Annual % Change
Retail: \$0 - \$150,000	1.00	\$166.36	1.00	\$200.00	20.22%
Retail: \$150,001 - \$400,000	2.00	332.72	2.00	400.00	20.22%
Retail: \$400,001 - \$600,000	4.00	665.43	4.00	800.00	20.22%
Retail: \$600,001 - \$1,000,000	6.00	998.15	6.00	1,150.00	15.21%
Retail: \$1,000,001 +	8.00	1,330.88	8.00	1,500.00	12.71%
Professional ¹	0.60	99.82	-	-	n/a
Miscellaneous ²	0.60	99.82	-	-	n/a
Service ¹	0.80	133.08	-	-	n/a
Hotel ³	1.60	266.18	-	-	n/a
Financial	6.00	998.15	6.00	1,550.00	55.29%
Mills Health Center ⁴	-	-	24.00		n/a
Professional: Up to 5 Employees ¹	-	99.82	2.00	550.00	450.99%
Professional: 6-15 Employees ¹	-	99.82	4.75	1,200.00	1102.16%
Professional: 16-35 Employees ¹	-	99.82	9.00	2,300.00	2204.15%
Professional: 36-75 Employees ¹		99.82	12.00	3,050.00	2955.50%
Professional: 76+ Employees ¹⁵		99.82	12.00	3,050.00	2955.50%
Service: Up to 5 Employees ¹	-	133.08	1.50	400.00	200.57%
Service: 6-15 Employees ¹	-	133.08	4.50	1,150.00	764.14%
Service: 16-35 Employees ¹	-	133.08	6.75	1,700.00	1177.43%
Service: 36-75 Employees ¹		133.08	9.00	2,300.00	1628.28%
Service: 76+ Employees ¹⁶		133.08	9.00	2,300.00	1628.28%

1 - The *Professional* and *Service* categories are proposed to be broken-up into five new categories, with tiers based on employee counts. For purposes of this analysis, assumptions were made regarding employee counts at existing businesses within the DBIA (using the listing of business licenses provided by the City of San Mateo), as such information is not available from the City of San Mateo.

2 - NBS proposes to eliminate the *Miscellaneous* category and reassign existing businesses with that designation into one of the *Professional* or *Service* categories.

3 - Only one business in the DBIA is classified as *Hotel* ; however, it is not actually a hotel, it is a rooming house. In the future, NBS recommends that the *Hotel* category be consolidated into one of the *Service* categories.

4 - Assigned 24 times the Benefit Factor assigned to *Retail: \$1,000,001 +* .

5 - Base rate of \$3,050, plus \$14.00 per employee over 75 employees.

6 - Base rate of \$2,300, plus \$10.00 per employee over 75 employees.

Appendix A
Downtown San Mateo Association
Downtown Business Improvement Area
Proposed Assessment Rates for FY 2023/24 Assuming a Budget of \$400,000, Zone 2 Factor of 50%

Business Type	Zone 2				
	Current Structure		Revised Structure		
	FY 2022/23		FY 2023/24		
	Benefit Factor	Rate	Benefit Factor ⁴	Rate @ \$400k	Annual % Change
Retail: \$0 - \$150,000	0.40	\$66.55	0.50	\$100.00	50.26%
Retail: \$150,001 - \$400,000	0.60	99.82	1.00	200.00	100.36%
Retail: \$400,001 - \$600,000	0.80	133.10	2.00	400.00	200.53%
Retail: \$600,001 - \$1,000,000	1.20	199.62	3.00	575.00	188.05%
Retail: \$1,000,001 +	2.00	332.72	4.00	750.00	125.41%
Professional ¹	0.40	66.55	-	-	n/a
Miscellaneous ²	0.40	66.55	-	-	n/a
Service ¹	0.40	66.55	-	-	n/a
Hotel ³	0.40	66.55	-	-	n/a
Financial	4.00	665.44	3.00	775.00	16.46%
Professional: Up to 5 Employees ¹	-	66.55	1.00	275.00	313.22%
Professional: 6-15 Employees ¹	-	66.55	2.40	600.00	801.58%
Professional: 16-35 Employees ¹	-	66.55	4.50	1,150.00	1628.02%
Professional: 36-75 Employees ¹	-	66.55	6.00	1,525.00	2191.51%
Professional: 76+ Employees ¹⁵	-	66.55	6.00	1,525.00	2191.51%
Service: Up to 5 Employees ¹	-	66.55	0.75	200.00	200.53%
Service: 6-15 Employees ¹	-	66.55	2.25	575.00	764.01%
Service: 16-35 Employees ¹	-	66.55	3.38	850.00	1177.24%
Service: 36-75 Employees ¹	-	66.55	4.50	1,150.00	1628.02%
Service: 76+ Employees ¹⁶	-	66.55	4.50	1,150.00	1628.02%

1 - *Professional* and *Service* categories are proposed to be broken-up into five new categories, with tiers based on employee counts. For purposes of this analysis, assumptions were made regarding employee counts at the existing businesses within the DBIA (using the listing of business licenses provided by the City of San Mateo), as such information is not available from the City of San Mateo.

2 - NBS proposes to eliminate the *Miscellaneous* category and reassign existing businesses with that designation into one of the *Professional* or *Service* categories.

3 - Only one business in the DBIA is classified as *Hotel* ; however, it is not actually a hotel, it is a rooming house. Accordingly, NBS recommends that the *Hotel* category be consolidated into one of the *Service* categories.

4 - The Benefit Factor for all business types in Zone 2 have been modified to be 50% (Zone 2 Factor) of the Benefit Factor for corresponding business types in Zone 1. The Zone 2 Factor is not consistently applied under the current rate structure.

5 - Base rate of \$1,525, plus \$7.00 per employee over 75 employees.

6 - Base rate of \$1,150, plus \$5.00 per employee over 75 employees.

APPENDIX B

FINANCIAL
BANK
BANKING
COMMERCIAL BANK
FINANCIAL SVCS
SECURITIES BROKER
SECURITY BROKER
PROFESSIONAL
3D VISUALIZATION TRAINING
ACCOUNTING
ACCOUNTING SERVICES
ACCOUNTING, TAX SERVICES
ACUPUNCTURE
ACUPUNCTURE SERVICES
ACUPUNCTURIST
ARCHITECTURE
ASSET MANAGEMENT
ATTORNEY
AUDIOLOGY SERVICES
BUILDING SCANNING AND BUILDING DATA HOSTING
BUSINESS CONSULTANTRECORDS STORAGE
CHIROPRACTIC
CHIROPRACTOR
CLINICAL LAB
CLOUD BASED INFRASTRUCTURE FOR REAL TIME MESSAGING/MOBILE APP
COMPUTER SOFTWARE AND SERVICES
CONSULTANT
CONSULTING
COUNSELING SERVICES
COWORKING SPACE
CPA FIRM
DATA PROCESSING PLATFORM
DATABASE DEVELP
DENTAL OFFICE
DENTAL PRACTICE
DENTIST
DERMATOLOGY PRACTICE
DESIGN STRATEGY
Dispensing Optician
DOCTORS OFFICE
ELECTRONIC INSTRUMENTS FOR SAILBOATS AND PADDLEBOARDS
ESCROW
EXECUTIVE SUITES BUSINESS
EXPORT AND IMPORT OFFICE
FINANCIAL SRVCS
GAME SOFTWARE DEVELOPMENT
GENERAL DENTAL PRACTICE
HOTEL MGT
INCOME TAX INSURANCE AND REGISTRATION SERVICE
INSURANCE
INSURANCE SALES
INSURANCE/FIN
INTERNET APPLICATIONS AND DIGITAL MEDIA
INTERNET CLOUD PLATFORM SERVICE
INVESTMENT ADVICE
KIDNEY DIALYSIS SERVICE
LAW FIRM
LAW OFFICE
LAW OFFICES
LAW PRACTICE
MANAGEMENT CONSULTING
MARKETING CONSULTING
MARRIAGE AND FAMILY THERAPHY
MARRIAGE AND FAMILY THERAPIST
MARRIAGE FAMILY THERAPY
MEDICAL
MEDICAL CLINIC
MEDICAL DOCTOR

APPENDIX B

PROFESSIONAL
MEDICAL OFFICE
MEDICAL PRACTICE
MEDICAL PSYCHIATRY GROUP PRACTICE
MEDICAL SERVICE
MEDICAL SERVICES
MENTAL HEALTH SV
MENTAL HEALTH/COUNSELING SERVICES
MERCHANT ACQUIRING
MOBILE GAME DEVELOPMENT
MOBILE/INTERNET APP DEVELOPMENT
MORTGAGE BROKER
ONLINE DATA BACKUP
ONLINE SOFTWARE SUBSCRIPTIONS DIY VIDEO
OPHTHALMOLOGY
OPTICAL STORE
OPTOMETRIST PRACTICE
OPTOMETRY OFFICE
PEDIATRIC URGENT CARE
PHYSICIAN
PODIATRY
PRIVATE OPERATING FOUNDATION
PROFESSIONAL SVC
PROJECT MANAGEMENT CONSULTING
PROPERTY MANAGEMENT
PROPERTY MGMT
PROSTHETIC AND ORTHOTIC SERVICES
PSYCHIATRIST
PSYCHOTHERAPIST AT BUILDING SOLUTIONS COUNSELING CENTER
PSYCHOTHERAPIST: ELIZABETH ALVAREZ
PSYCHOTHERAPY
PSYCHOTHERAPY PRACTICE
PSYCHOTHERAPY SERVICES
PUBLIC ADVOCATE AND EDUCATION FOR CA FACIAL PLASTIC SURGERY
PUBLIC RELATIONS SERVICES
REAL ESTATE
REAL ESTATE BRKR
REAL ESTATE INVESTMENTS
REAL ESTATE MGMT
RECONSTRUCTIVE SURGERY
RECRUITING COMPANY
RECRUITING SERVICES
RESEARCH AND DEVELOPMENT
RETAIL EYEWEAR
SALE OF INSURANCE
SALES OF SECURITY CAMERAS/SOFTWARE DEVELOPMENT
SALES-SATELLITE
SOFTWARE
SOFTWARE DEVELOPER
SOFTWARE DEVELOPMENT
SOFTWARE DEVELOPMENT VIDEO GAMES
SOFTWARE DISTRIBUTION FOR AG WATER AND ENERGY SECTOR
SOFTWARE PLATFORM FOR MODERN CLOUD APPLICATIONS
SOFTWARE PUBLICATION
SOFTWARE SERVICES
SOFTWARE SERVICES @SPACES
SPEECH THERAPY
TAX AND ACCOUNTING SERVICES
TAX PREPARATION
TAX SERVICES
VENTURE CAPITAL
VENTURE CAPITAL MANAGEMENT
VETERINARY SVCS
Wealth Managaement
WEBSITE CREATION

APPENDIX B

RETAIL
BAKERY (PASTERIES COOKIES)
BAKERY CAFE
BAKERY/CAFE
BAR
BEAUTY SUPPLIES
BEER WINE COCKTAIL BAR
BICYCLE RETAIL SERVICE REPAIRS
BICYCLE SHOP
BOBA MILK TEA
BOBA TEA CAFE
BUBBLE TEA JUICE BAR AND SMOOTHIES
CAFE SERVING BOBA TEA AND FRUIT TEA
CAKE DECOR/SALES
CELL PHONE ACCESSORIES
CHINESE RESTAURANT
COFFEE HOUSE
COFFEE SHOP
CONVENIENCE MARKET
CONVENIENCE STORE
CUPCAKERY
DELI
DESSERT RESTAURANT
DRINK AND SNACK STORE
DRINKING PLACE
DRUGSTORE
E COMMERCE DELIVERING AWESOME GIFTS FOR MEN
EXQUISITE TEA AND DESSERT
FAST CASUAL DINING AND TAKE OUT RESTAURANT
FAST FOOD
FAST FOOD RESTAURANT
FLORIST GIFTS
FOOD AND BEVERAGES
FOOD SERVICE
FOOD TO GO
FOOD TRUCK BURRITOS TACOS QUESADILLAS
FULL SERVICE JAPANESE RESTAURANT
FULL SERVICE RESTAURANT
FULL SERVICE RESTAURANT - DINING, CATERING
FULL SERVICE RESTAURANT AND DESSERT
FULL-SERVICE RESTAURANT
GROCERY
HARDWARE - RETAIL
HAWAIIAN CAFE
JAPANESE RESTAURANT
JUICE AND ICE CREAM SHOP
LEATHER PRODUCTS
LIQUOR/GROCERY
MEAT MARKET
MEDITERRANEAN RESTAURANT
MEXICAN RESTAURANT
MISC RETAIL STORE
MOVIE THEATRE
NOODLE BAR
NOODLE SHOP
NOTARY, SHIPPING, PRINTING, MAILBOX RENTAL
OFFICE
ORTHOPEDIC SALES
PAINT/SUNDRIES
PIZZA
PIZZA PARLOR
PIZZA RESTAURANT
PIZZA SHOP
PIZZA/PASTA/BAR
PRODUCE MARKET
QUICK SERVICE CASUAL JAPANESE RESTAURANT
RESTAURANT
RESTAURANT, OFFER QUICK NOODLES SERVICE
RESTAURANT/BAR
RETAIL - CAFE
RETAIL - DONUTS
RETAIL CLOTHING

APPENDIX B

RETAIL
RETAIL COOKING SUPPLY STORE AND COOKING SCHOOL
RETAIL DANCEWEAR
RETAIL FLOORING SALES
RETAIL FOOD
RETAIL FRAMING
RETAIL FURNITURE
RETAIL HOME FURNISHINGS
RETAIL JEWELRY
RETAIL PLASTICS
RETAIL RESTAURANT
RETAIL SALE OF MARTIAL ARTS EQUIPMENT & INSTRUCTION
RETAIL SALES
RETAIL SALES OF GAS
RETAIL SALES OF WIRELESS TELECOMMUNICATIONS
RETAIL SHOES
RETAIL SKATEBOARD STORE
RETAIL SPECIALTY FOODS
RETAIL TOBACCO & NOVELTY PRODUCTS
RETAIL-FOOD SALE
SALE OF BICYCLES INCLUDING E-BIKES AND CYCLING EQUIPMENT
SALES
SALES RETAILS OF GROCERIES AND MARKET PRODUCTS
SEA FOOD TO GO
SELLING CRAFTED TEA DRINKS
SMOKE SHOP
SOFT SERVE & TAIYAKI
SPORTS CLOTHES AND PHONES
SUSHI BAR RESTAURANT
TAKE OUT FOOD
TAQUERIA
TASTING ROOM AND RETAIL SALES
TECHNOLOGY STORE, SERVICE REPAIR AND SALES OF IPHONES LAPTOPS.
THAI FOOD RESTAURANT
VACUUM & SEWING SALES
WOMANS CLOTHING STORE

SERVICE
181 2ND AVE PARKING (SAN MATEO)
APPLIANCE REPAIR
AUTO BODY REPAIR
AUTO CARE
AUTO LUBE/OIL
AUTO REPAIR
Auto Repair and Tire Sales
AWARD PRODUCTS
BARBER SHOP
BEAUTY RETAIL STORE
BEAUTY SALON
BEAUTY SHOP
BOXING AND FITNESS
BUSINESS MANAGEMENT / SKIN CARE PRODUCT SALES
CENTERED SPANISH LEARNING
CHILDREN'S GYMNASTICS
CLEANERS
CLEANING SERVICES
CORPORATE PARKING AND CUSTOMER SERVICE
COSMETIC AND PARAMEDICAL TATTOO, PERMANENT MAKEUP
COURSES AND BOARDING
DRY CLEANER
DRY CLEANING
DRY CLEANING AND ALTERATIONS
ELECTRONIC REPAIR (CELL PHONES, TABLETS, COMPUTERS) AND SOME RETAIL.
ENTREPRENEURIAL CENTER PROVIDES TOOLS TO START-UPS
ESTHETICS SERVICES AND EYELASH EXTENSIONS

APPENDIX B

SERVICE
FITNESS CLUB
FITNESS STUDIO
FURNITURE/ACCESS
GAS STATION
GEN. CONTRACTOR
HAIR AND NAIL
HAIR AND NAILS
HAIR MAKEUP WAXING SALON
HAIR NAILS AND FACIALS
HAIR SALON
HAIR SALON - 6 STATIONS
HAIR STYLIST - IC @MAISON SALON
HAIR, NAIL, & FACIAL SALON
HAIRCUTTING
HAIRSTYLIST
HEALTH AND WELLNESS, PERSONAL TRAINING, GROUP CLASS
HEALTH/FITNESS
HOLISTIC HEALTH SPA
HOME CARE AGENCY (ADMIN OFFICE ONLY)
HYPNOTHERAPY
IC@BOREL HAIR CARE
INTERIOR DESIGN
IRON WORKS
LAUNDROMAT
LOCKSMITH
MARTIAL ARTS STUDIO
MASSAGE
MATH ACADEMIC TUTORING
MEETINGS AND BIBLE STUDY
METER COLLECTION (312 S ELLSWORTH AVE)
MONEY TRANSFER AND MONEY ORDER SERVICES AS WELL AS PUBLIC NOTARY AND REAL ESTATE AGENT SERVICES.
MULTIMEDIA PRODUCTION
MUSIC INSTRUCTION
NAIL AND HAIR SALON
NAIL SALON
NUTRITION CONSULTANT
ON LINE EDUCATIONAL WORKBOOKS, WORKSHEETS, ACTIVITIES AND GAMES FOR PREK -5TH GRADE
PERMANENT MAKEUP. BEAUTY TATTOO
PERSONAL TRAINING
PHOTOCOPIES
PILATES FITNESS STUDIO
PILATES STUDIO
POSTAL BUSINESS
ROOFING AND SHEET METAL
ROOMING HOUSE
SAMPLES AND INFORMATION
SCALE SALES/SVC
SERVICE AND PRODUCT SALES
SERVICE STATION
SHIPPING, NOTARY PUBLIC, FINGERPRINTING, ETC SERVICES
SHOE REPAIR
SKIN AND BODY TREATMENT
SKIN CARE
SKIN CARE & BODY TREATMENT
SKIN CARE AND FACIAL BUSINESS
SMOG CHECK AND AUTO REPAIR SHOP
SOCIAL CLUB
SPA- COSMETOLOGY- ESTHETICIAN- MASSAGE
STAINED GLASS
SUPPLIMENTAL EDUCATION
TAILOR SHOP
TATTOO SHOP
TATTOOING. THE SPACE WILL BE USED FOR PRIVATE TATTOO SESSIONS
TEACHING POSTURE
TOWING YARD
TRANSLATION
TRAVEL
TRAVEL AGENCY
TUTORING AND EDUCATIONAL SERVICES
WE ARE A HEALTH AND WELLNESS COMPANY PROVIDING NUTRITIONAL AND WEIGHT LOSS SERVICES TO CITIZENS.
YOGA INSTRUCTOR AND SALES
YOGA STUDIO

MEMO

To: Downtown San Mateo Association Board Members
From: Tim Seufert and Nick Dayhoff/NBS
Date: February 20, 2020
Re: Business Improvement District Research and Analysis

Executive Summary

Downtown San Mateo has gone through many changes over the past years, with more changes to come. Community leaders realized it was time to review the level of services provided, budget and method of funding within the Downtown Business Improvement Area (the "DBIA"). In particular, there has been a desire to update the fee structure so that it is more equitable, based on the benefits offered by the services that are provided.

As with many downtowns, there is a shift occurring in retail from goods to experiences, such as shopping to dining. In the City of San Mateo (the "City"), there has also been a pronounced increase in office space and foot traffic from those workers and office users. At the same time, there has been a natural increase in the cost of operations (Downtown San Mateo Association [the "DSMA"] staff, cleaning, event production) while revenues have remained flat.

Therefore, this memo provides some background and comparative information, and briefly summarizes the proposed changes to the method of assessing the fees, with a focus on equity and fairness.

As further detailed in this memo, in order for the DSMA to generate desired revenue of \$350,000, NBS recommends the following rates for each of the following categories in Zone 1 and Zone 2, based on the discussions with the DSMA and our understanding of the area:

Zone 1		
Business Type	Current Rate	Proposed Rate
Retail: \$0 - \$150,000	\$166.36	\$182.72
Retail: \$150,001 - \$400,000	332.72	365.44
Retail: \$400,001 - \$600,000	665.43	730.88
Retail: \$600,001 - \$1,000,000	998.15	1,096.32
Retail: \$1,000,001 +	1,330.88	1,461.76
Financial	998.15	1,096.32
Mills Health Center	-	4,385.28
Professional: Up to 5 Employees	-	365.44
Professional: 6-15 Employees	-	1,096.32
Professional: 16-35 Employees	-	1,644.48
Professional: 36-75 Employees	-	2,192.64
Professional: 76 + Employees ¹	-	2,192.64
Service: Up to 5 Employees	-	274.08
Service: 6-15 Employees	-	822.24
Service: 16-35 Employees	-	1,233.36
Service: 36-75 Employees	-	1,644.48
Service: 76 + Employees ²	-	1,644.48

1 - plus \$9.79 per employee over 75 employees.

2 - plus \$7.34 per employee over 75 employees.

Zone 2		
Business Type	Current Rate	Proposed Rate
Retail: \$0 - \$150,000	\$66.55	\$91.36
Retail: \$150,001 - \$400,000	99.82	182.72
Retail: \$400,001 - \$600,000	133.10	365.44
Retail: \$600,001 - \$1,000,000	199.62	548.16
Retail: \$1,000,001 +	332.72	730.88
Financial	665.44	548.16
Mills Health Center	-	n/a
Professional: Up to 5 Employees	-	182.72
Professional: 6-15 Employees	-	548.16
Professional: 16-35 Employees	-	822.24
Professional: 36-75 Employees	-	1,096.32
Professional: 76 + Employees ³	-	1,096.32
Service: Up to 5 Employees	-	137.04
Service: 6-15 Employees	-	411.12
Service: 16-35 Employees	-	616.68
Service: 36-75 Employees	-	822.24
Service: 76 + Employees ⁴	-	822.24

3 - plus \$4.89 per employee over 75 employees.

4 - plus \$3.67 per employee over 75 employees.

Background – Downtown Business Improvement Area

The City established the DBIA in 1986, pursuant to the *Parking and Business Improvement Area Law of 1979*, to levy an annual assessment on businesses within the DBIA in order to provide decorations, promote public events, furnish music, and generally promote business activities within the DBIA. The DSMA is the advisory board appointed by the City Council of the City (the “Council”) to make recommendations to the Council on the expenditure of revenues derived from the levy of assessments, on the classification of businesses, and on the method and basis of levying the assessments.

The *Parking and Business Improvement Area Law of 1979* was repealed and replaced with the *Parking and Business Improvement Area Law of 1989 (the “PBIA Law”)*, and, as such, the DBIA is currently subject to Chapters 3, 4, and 5 of the PBIA Law, covering (1) Assessments, (2) Modifications to Boundaries, Assessments, Improvements, or Activities, and (3) Disestablishment, respectively. Pursuant to the PBIA Law, the City must renew the DBIA each year

More recently, the DSMA has focused on beautification and cleanliness, public outreach, promotion of the DBIA, and events. The City collects the annual assessment—on behalf of the DSMA—from each business within the DBIA as part of the annual business license tax, which provides the majority of the revenue needed to pay for these services and activities.

In advance of the next renewal proceedings, the DSMA Board is exploring the possibility of modifying the current assessment structure, which has been in place since 2009. As part of this process, the DSMA Board commissioned NBS to research methods that other Business Improvement Districts (“BIDs”) use to assess businesses, and to provide some guidance and options for amending the DSMA’s current method of assessment. This memorandum serves to address these issues, among others.

Existing DBIA Assessment

All businesses within the DBIA, excluding non-profits, are currently subject to the levy of the annual assessment, based upon the location of the business, type of business, as well as gross sales if the business is classified as *Retail*.

There are two Zones within the DBIA. Zone 1 is the core of the City’s downtown area, and businesses within this zone receive the most benefit and impact from the DSMA’s services and activities, and as such pay a higher assessment than those businesses in Zone 2. Zone 2 is further out from the City’s downtown area, and businesses within this Zone receive less benefit from the DSMA’s services and activities, and as such pay a lower assessment than those businesses in Zone 1.

Business are classified into six different types, for assessment purposes:

- ñ Retail
- ñ Financial
- ñ Hotel
- ñ Professional
- ñ Service
- ñ Miscellaneous

Existing assessments for each type of business are as follows:

TABLE 1 – EXISTING ASSESSMENT RATES

Type	Annual Gross Receipts	Zone 1 Rate	Zone 2 Rate
Retail	\$0 - \$150,000	\$166.36	\$66.55
	\$150,001 - \$400,000	332.72	99.82
	\$400,001 - \$600,000	665.43	133.10
	\$600,001 – \$1,000,000	998.15	199.62
	\$1,000,001 +	1,330.88	332.72
Professional		99.82	66.55
Miscellaneous		99.82	66.55
Service		133.08	66.55
Hotel		266.18	66.55
Financial		998.15	665.44

Potential Legal Risks of an Assessment Rate Increase

Legal challenges against new or increased assessments are not uncommon, and in fact, legal threats against new or increased assessments are fairly common. If an assessment is likely to be challenged, a city may consider “impounding” the assessment proceeds until the challenge has ended. Cities do this because once proceeds are paid to the association and expended on services, those proceeds will not be available for refunds or satisfaction of judgments. Associations generally do not like impounding, since it prevents payment for services if funding is held-up by the city.

Legal challenges against assessments, it seems, are almost strictly limited to those assessments subject to Proposition 218, which requires a much more stringent analysis separating and quantifying special and general benefit prior to levying an assessment, as only special benefit may be assessed. The ‘good’ news is that, in 1999, the Fourth District Court of Appeal ruled that BIDs created by cities under the PBIA Law are not subject to the requirements of Proposition 218, and the court concluded that assessments levied pursuant to the PBIA Law do not constitute an “assessment” within the meaning of Proposition 218.

As a result of the adoption by the voters in 2010 of Proposition 26, an assessment against businesses requires two-thirds voter approval as a special tax unless it meets one of several enumerated exceptions.

The exceptions most relevant in the context of BIDs are for:

- A charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege.
- A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

Under Proposition 26, the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the activity.

The common BID seems to qualify for an exemption to Proposition 26, although that doesn't guarantee a BID assessment will not be challenged. Note that a group called San Diegans for Open Government has unsuccessfully challenged the validity of the City of San Diego's BIDS on more than one occasion.

Therefore, the most likely potential legal risk of a modification to the current assessment structure – or even the existing structure – is a successful majority protest at the annual public hearing on the re-authorization of the DBIA. If there is a successful majority protest against the proposed structural changes and assessments, the DSMA must wait for one year before attempting to renew the DBIA. For this reason, it is important that the DSMA reach out to business owners within the DBIA to keep them informed of any proposed structural changes or increases to assessments prior to the public hearing. Such outreach and having the largest assesseees on board throughout the process helps to mitigate the risk of a successful majority protest.

Assessment Equity/Comparing the Existing DBIA Assessment with other Regional BIDs

As part of this project, NBS examined several other BIDs in the region and throughout the State of California to study what factors are used to levy their assessments and how they create equity in the assessment distribution among different categories of businesses. Appendix A details various characteristics of each of these examined BIDs, including: name of the BID, number of businesses within the BID, annual revenue, annual budget, services/activities, number of zones, assessment methodology, treatment of non-profit businesses, treatment of hospitals (if any), and treatment of businesses on the second floor or higher of buildings.

Most of the examined BIDs have categories similar to those in the DBIA, specifically some version of retail, service, professional, and financial categories; however, there is some variation in regard to how the assessment is determined. The examined BIDs provide many different examples of just this:

- J the Park Street BID assesses a rate per \$1,000 of gross receipts for retail businesses, while the other categories pay a flat rate;
- J the Downtown Palo Alto BID uses the ranges of employees as the basis of assessment for retail/restaurants, service, and professional businesses, the number of rooms for lodging businesses, and a flat rate for financial businesses;
- J the Downtown Santa Cruz BID uses a rate per square foot of floor area for all types of businesses;
- J Novato's Downtown BID uses the ranges of employees as the basis of assessment, but only for retail/restaurant businesses. All other types of businesses are assessed flat fees of varying amounts;
- J Petaluma's Downtown BID uses the number of employees;
- J both of Santa Barbara's BIDs use some percentage of the regular business license fee for most types of businesses as the basis for their assessment;
- J the Downtown Long Beach PBIA applies a base fee per business, plus a fee per employee;
- J the East Anaheim Street PBIA uses flat rates for most categories, and the others pay a flat fee plus a per employee fee;
- J the Downtown Santa Ana BID uses some percentage of the regular business license fee for all businesses types; and,
- J the Huntington Beach Downtown BID uses ranges of square feet of floor area for retail/restaurant and service/office businesses, uses the number of rooms for hotel businesses, and utilizes a flat rate for other business types.

Through this research, it seems that the most common ways in which these other BIDs create equity in assessment distribution is by using gross sales figures, employee counts, square footage of businesses, flat fees per category, or some combination of these variables. Any of these methodologies seem reasonable as it relates to apportioning the DBIA assessment. It all comes down to whether or not such data is available for analysis.

In order to see how the DBIA's assessments compare to a few other BIDs in the region in terms of revenues generated and equity of assessments between categories, NBS focused-in on the Park Street BID, the Downtown Palo Alto BID, the Downtown Santa Cruz BID, and Novato's Downtown BID. The following table shows some key points:

TABLE 2 – REGIONAL BID COMPARISON

BID	Number of Businesses	BID Revenue ¹	Professional to Base Retail Ratio	Service to Base Retail Ratio
DBIA	525+	~\$190,000	60%	80%
Park Street BID ²	470+	~122,000	51%	51%
Downtown Palo Alto BID	800+	~112,500	27%	76%
Downtown Santa Cruz BID ³	650+	~250,000	40%	40%
Novato's Downtown BID	380+	~55,500	83%	100%

1 –Only includes revenue from the BID assessment. Does not include revenue from grants or fundraising.

2 – Has both Retail Service (minimum of \$172) and Retail Goods (minimum of \$336) categories and are assessed \$0.40 per \$1,000 of gross sales in Area A.

3 – All business types are assessed \$0.41 per square foot of floor area.

Refer to Appendix A for further details on the various assessment rates among the examined BIDs.

Ground Floor vs. Second Floor/Non-Profits

Like the DBIA, most of the examined BIDs treat businesses on the ground floor the same as businesses on upper floors. However, a few treat businesses that are not on the ground floor differently.

For example, in the Downtown Palo Alto Business Improvement District second floor (and higher) businesses located within Zone A are assessed the same as similar street-level businesses within Zone B. Depending on the type of business and the number of employees, the assessment to businesses on the upper floors of a building amounts to anywhere between 17% to 25% less than businesses on the ground floor.

The Huntington Beach Downtown Business Improvement District has different rates for Service/Office businesses that are not on the ground floor. Depending on the zone and square footage of the business, the assessment to these types of businesses on the upper floors of a building amounts to anywhere between 57% less to 150% more than businesses on the ground floor.

As it relates to considering potential structural changes to the DBIA assessment, NBS recommends assessing businesses on the second floor or higher the same as similar business types on the ground floor. In our opinion, there's really no reason to assess these businesses any differently because the people who work at businesses still have to use the sidewalks and benefit from the DSMA's cleaning program, and the business still benefits from the DSMA's marketing and outreach activities. In addition, businesses on the second floor are more likely to be

professional offices or similar (not retail based businesses) and would likely already be assessed at a different rate than retail-based businesses on the ground floor that rely more-heavily on foot traffic at the sidewalk level.

Similarly to the DBIA, most of the examined BIDs specifically exempt non-profit businesses from paying an assessment. The exceptions being the Downtown Santa Cruz Business Improvement District and the East Anaheim Street PBIA in the City of Long Beach, with the latter only assessing a base fee of \$100 to non-profit businesses. The Huntington Beach Downtown Business Improvement District, which doesn't assess non-profit businesses on their regular schedule of assessments, does allow non-profit businesses to participate by paying \$30. As it seems it is not too common to assess BID fees to non-profit businesses, NBS recommends that any modified structure continue to exempt non-profit businesses. The only exception here being if the DSMA desires to assess the Mills Medical Center, which lies within the boundaries of Zone 1 within the DBIA, but is currently not assessed. This medical center is the largest employer in the City and has a large footprint in the downtown area, and should likely be assessed.

Potential Revenue Generated from a Change in Assessment Fees and Potential Structural Changes to the DBIA Assessment

The potential revenue generated in any given year should generally be a function of the DSMA's proposed budget in any given year. The DSMA should begin with a proposed budget for the upcoming year and assessments should then be apportioned to each business, based upon such annual budget. Assessments rates should ideally be re-evaluated each year or every few years depending on changes to both annual budget and the number and types of business within the DBIA. This is absolutely necessary due the uncertainty of economic conditions from year-to-year and how such conditions will affect the number and types of businesses that may exist within the DBIA in any given year.

As previously detailed, there are several ways in which other BIDs apportion assessments to businesses: some use a rate per \$1,000 of gross receipts, some use a rate per floor area, some use employee counts, etc. Since none of these factors are available from the City, as they relate to the DBIA, NBS must work within the confines of the existing rate structure. This isn't exactly ideal for purposes of analyzing potential new assessment structures, but it may actually be more favorable from a business owners' perspective, as working within the existing rate structure at least provides a certain level of familiarity. It's also worth noting that many of the other examined BIDs use business categories similar to those of the DSMA.

That being said, NBS does recommend some modifications to the existing structure, as well as increasing the existing assessment rates, as the DSMA has expressed its desire to increase annual BID revenue to \$350,000, in order to hire an executive director, expand existing services and activities, and create value for the downtown area. Achieving this level of revenue under the current rate structure is simply not possible, as the DSMA anticipates only \$190,000 in assessment revenue in FY 2019/20, per the DSMA's annual report for FY 2018/19. This represents a desired revenue increase of approximately 84.2% from current levels.

To start, NBS has analyzed the current listing of active businesses within the DBIA, as provided by the City. The count of each business type within each of the two Zones are shown in the following table:

TABLE 3 – COUNT OF EACH BUSINESS TYPE

Type	Annual Gross Receipts	Zone 1 Count	Zone 2 Count	Total Count
Retail	\$0 - \$150,000	31	8	39
	\$150,001 - \$400,000	39	9	48
	\$400,001 - \$600,000	14	3	17
	\$600,001 – \$1,000,000	21	4	25
	\$1,000,001 +	50	12	62
Professional		146	21	167
Miscellaneous		22	9	31
Service		85	38	123
Hotel		0	1	1
Financial		11	1	12
TOTALS		419	106	525

Table 3 shows that there is only one business in the DBIA classified as *Hotel*. However, after researching the listing of business licenses provided by the City, it was discovered that this business is not actually a hotel in the traditional sense – it is actually a rooming house. As this is the only business classified in this manner, NBS recommends that the *Hotel* category be consolidated with the *Service* category.

NBS also recommends that businesses in the *Miscellaneous* category be reassigned to either the *Service* or *Professional* category, and the *Miscellaneous* category be eliminated.

Regarding the *Service* category, the DSMA desires to break-up this classification into five tiers using ranges of employee counts: Up to 5 Employees, 6-15 employees, 16-35 employees, 36-75 employees, and 76+ employees. DSMA also would like to break-up the *Professional* category in the same manner. As employee count data is not available from the City, an estimate of the employee count range was made for each business classified as either *Service* or *Professional*.

In addition, the DSMA wishes to assess the Mills Health Center, as it is the largest employer in the City. Although this medical complex is not currently assessed under the current rate structure, as it is a non-profit entity, the DSMA feels that it does benefit from the services and activities provided. Since it is such a large complex and a top employer, NBS suggests assessing the Mills Health Center 24 times more than businesses in the *Retail \$0 - \$150,000* category.

Since we're constrained to working mostly under the existing rate structure, in order to propose any modifications, we must first examine such structure by analyzing how the various rates for each category relate to the Zone 1 rate for *Retail \$0 - \$150,000* (the "Base Assessment Rate") businesses.

TABLE 4 – EXISTING RELATIVE RATE STRUCTURE

Type	Annual Gross Receipts	Zone 1 Rate	Zone 1 Benefit Factor ¹	Zone 2 Rate	Zone 2 Benefit Factor ¹
Retail	\$0 - \$150,000	\$166.36	1.00x	\$66.55	0.40x
	\$150,001 - \$400,000	332.72	2.00x	99.82	0.60x
	\$400,001 - \$600,000	665.43	4.00x	133.10	0.80x
	\$600,001 – \$1,000,000	998.15	6.00x	199.62	1.20x
	\$1,000,001 +	1,330.88	8.00x	332.72	2.00x
Professional		99.82	0.60x	66.55	0.40x
Miscellaneous		99.82	0.60x	66.55	0.40x
Service		133.08	0.80x	66.55	0.40x
Hotel		266.18	1.60x	66.55	0.40x
Financial		998.15	6.00x	665.44	4.00x

1 – Relative to the Base Assessment Rate.

From Table 4, we can see how the current rates are structured. In Zone 1, businesses classified as *Retail \$150,001 - \$400,000* are assessed two times the Base Assessment Rate, businesses classified as *Retail \$400,001 - \$600,000* are assessed four times the Base Assessment Rate, etc.

The same follows in Zone 2: businesses classified as *Retail \$0 - \$150,000* are assessed 0.40 times the Base Assessment Rate, businesses classified as *Retail \$150,001 - \$400,000* are assessed 0.60 times the Base Assessment Rate, etc.

NBS recommends that the *Retail* benefit factors in Zone 1 be kept intact.

Next, we need to examine how the rates for each business type in Zone 2 relate to the corresponding business type in Zone 1:

TABLE 5 – EXISTING ZONE 2 FACTORS

Type	Annual Gross Receipts	Zone 1 Rate	Zone 2 Rate	Zone 2 Zone Factor ¹
Retail	\$0 - \$150,000	\$166.36	\$66.55	0.40x
	\$150,001 - \$400,000	332.72	99.82	0.30x
	\$400,001 - \$600,000	665.43	133.10	0.20x
	\$600,001 – \$1,000,000	998.15	199.62	0.20x
	\$1,000,001 +	1,330.88	332.72	0.25x
Professional		99.82	66.55	0.67x
Miscellaneous		99.82	66.55	0.67x
Service		133.08	66.55	0.50x
Hotel		266.18	66.55	0.25x
Financial		998.15	665.44	0.67x

1 – Relative to the corresponding business type in Zone 1.

From Table 5, we can see how the current rates for each business type in Zone 2 relate to the corresponding business types in Zone 1: businesses classified as *Retail \$0, - \$150,000* in Zone 2 are assessed 0.40 times the corresponding rate in Zone 1, businesses classified as *Retail \$150,001 - \$400,000* are assessed 0.30 times the corresponding rate in Zone 1, etc. Curiously, this table shows that there are currently six different Zone 2 “Zone Factors”. In our experience in working with various assessment districts throughout the State, best practice dictates that a Zone Factor should be consistently applied among all categories or business types within a specific zone of benefit. E.g., if it is determined that businesses in one zone receive half of the benefit of another zone, a Zone Factor of 50% should be applied evenly among all business types within the zone benefitting less, relative to the same business types in the zone benefitting more. In the DBIA’s case, the average of the various existing Zone 2 Zone Factors is 0.40, or 40% the benefit of businesses in Zone 1. After discussing with the DSMA, we will apply a 0.50 Zone 2 Zone Factor in our proposed structural modifications and consistently apply this number across all business types in Zone 2, relative to the same business types in Zone 1.

After making the recommended modifications to the *Service* and *Professional* categories, eliminating the *Hotel* and *Miscellaneous* categories, adding a new category for the Mills Health Center, and consistently applying the 0.50 Zone 2 Zone Factor to all business types in Zone 2 relative to corresponding businesses in Zone 1, results in the following revised benefit factors for the DBIA:

TABLE 6 – PROPOSED RELATIVE RATE STRUCTURE

Type	Annual Gross Receipts	Zone 1 Benefit Factor	Zone 2 Benefit Factor ¹
Retail	\$0 - \$150,000	1.00x	0.50x
	\$150,001 - \$400,000	2.00x	1.00x
	\$400,001 - \$600,000	4.00x	2.00x
	\$600,001 – \$1,000,000	6.00x	3.00x
	\$1,000,001 +	8.00x	4.00x
Financial		6.00x	3.00x
Mills Health Center		24.00x	n/a
Professional: Up to 5 Employees		2.00x	1.00x
Professional: 6-15 Employees		6.00x	3.00x
Professional: 16-35 Employees		9.00x	4.50x
Professional: 36-75 Employees		12.00x	6.00x
Professional: 76 + Employees		12.00x	6.00x
Service: Up to 5 Employees		1.50x	0.75x
Service: 6-15 Employees		4.50x	2.25x
Service: 16-35 Employees		6.75x	3.38x
Service: 36-75 Employees		9.00x	4.50x
Service: 76 + Employees		9.00x	4.50x

1 –50% of the benefit factor for the same business type in Zone 1.

In order to develop rates based on these new benefit factors, the benefit factors shown in Table 6 were applied to each of the businesses within the DBIA, mostly pursuant to the business types from the listing provided by the City (*Hotel* and *Miscellaneous* were reassigned, and a handful of businesses were reassigned to a more appropriate category). The total benefit factors within the DBIA is shown in the following table:

TABLE 7 – TOTAL BENEFIT FACTOR WITHIN THE DBIA

Type	Annual Gross Receipts	Total Benefit Factor
Retail	\$0 - \$150,000	35.00
	\$150,001 - \$400,000	87.00
	\$400,001 - \$600,000	62.00
	\$600,001 – \$1,000,000	132.00
	\$1,000,001 +	448.00
Financial		69.00
Mills Health Center		24.00
Professional: Up to 5 Employees		193.00
Professional: 6-15 Employees		354.00
Professional: 16-35 Employees		99.00
Professional: 36-75 Employees		96.00
Professional: 76 + Employees		36.00
Service: Up to 5 Employees		116.25
Service: 6-15 Employees		123.75
Service: 16-35 Employees		40.50
Service: 36-75 Employees		0.00
Service: 76 + Employees		0.00
TOTAL		1,915.50

Using the total benefit factor of 1,886.63 allows us to come up with a rate per 1.00 benefit factor, depending upon the DSMA's desired annual budget. For this example, we'll use the DSMA's anticipated revenue for FY 2019/20:

TABLE 8 – RATE PER 1.00 BENEFIT FACTOR (19/20 REVENUE ESTIMATES)

Total DBIA Benefit Factor	1,915.50
DSMA Budget	\$190,000.00
Rate per 1.00 Benefit Factor	\$99.19

This shows that the New Base Assessment Rate would need to be \$99.19 to achieve a budget of \$190,000, which is approximately 40.4% lower to the existing Base Assessment Rate of \$166.36.

In order to meet the DSMA's desired goal of a \$350,000 annual budget, the New Base Assessment Rate would need to be \$182.72, or about 9.8% higher than the existing structure:

TABLE 9 – RATE PER 1.00 BENEFIT FACTOR (PROPOSED)

Total DBIA Benefit Factor	1,915.50
DSMA Budget	\$350,000.00
Rate per 1.00 Benefit Factor	\$182.72

Appendix B shows the detailed schedule of recommended rates for each business type, assuming a FY 2020/21 budget \$350,000, and a Zone 2 Zone Factor of 0.50.

Appendix C compares the average assessment for each general category of business under the existing structure with the average assessment for each general category of business under the proposed structure.

If other data points were available from the City, specifically gross sales, accurate employee counts, and/or gross floor area of each business, we could provide different options for a revised rate structure. Because we do not have such data, we are mostly constrained to working within the limitations of the existing model.

Conclusion

As discussed within this memo, the business landscape in the Downtown San Mateo area has changed a lot since the original DBIA was formulated. There has been a pronounced increase in office space and foot traffic from those workers and office users. Meanwhile, there has been a natural increase in the cost of operations while revenues have remained flat. Due to the DSMA's desire to provide increased services and improved equity among the payors for those services, there is a need for increased revenue. Therefore, it's important for the DSMA to re-evaluate its method of assessment for the DBIA. NBS believes that the rate modifications proposed within this memo will help put the DSMA on a sustainable path in terms of having a reliable source of annual revenue and creating assessment equity among the various categories.

Appendix A

BID Name	# of Businesses	Annual Revenue	Annual Budget	Size	Activities	Number of Zones
Downtown Alameda Business Association (Park Street Business Improvement Area)	470+	<ul style="list-style-type: none"> • \$122,000 from BIA Assessment • \$206,000 from other sources 	\$328,000	see map	Special Events Clean, Green and Safe Program Promotions Program Member outreach Administration	2
Palo Alto Downtown Business and Professional Association (Downtown Palo Alto Business Improvement District)	800+	<ul style="list-style-type: none"> • \$112,500 from BID Assessment • \$21,000 from other sources 	\$133,500	see map	Banners Summer Concert Series Special Events Downtown Street Team Member outreach Administration	2
Downtown Association of Santa Cruz (Downtown Santa Cruz Business Improvement District)	650+	<ul style="list-style-type: none"> • \$250,000 from BID Assessment • \$279,584 from other sources 	\$526,084	n/a	Marketing Special Events Member outreach Administration	2
Downtown Novato Business Association (Downtown Business Improvement District)	380+	<ul style="list-style-type: none"> • \$55,500 from BID Assessment • \$55,500 from City (dollar for dollar assmt match) • \$92,940 from other sources 	\$268,400	see map	Marketing Special Events Member outreach Administration	2
Petaluma Downtown Association (Downtown Business Improvement District)	175+	\$65,000	\$65,000	see map	Beautification Marketing Security Administration	3
Downtown Organization of Santa Barbara (Downtown Business Improvement District / Old Town Business Improvement District)	1,480+	<ul style="list-style-type: none"> • \$263,000 from BID Assessment • \$375,580 from other sources 	\$637,270	see map	Marketing/Communications/Advertising Outreach and Involvement Administration	2
Downtown Long Beach PBIA	1,800+	\$633,000	\$633,000	see map	Community Advocacy Marketing and Communications Economic Development	1
East Anaheim Street PBIA	425+	<ul style="list-style-type: none"> • \$142,255 from BID Assessment • \$100 from other sources 	\$142,355	see map	Cleanliness Event Support Member and Area Marketing & Promotion Member Representation & Communication	1
Downtown Santa Ana Business Improvement District	600+	\$200,000	\$200,000	see map	Decorations Events Promotion of Business Activities	1
Huntington Beach Downtown Business Improvement District	260	<ul style="list-style-type: none"> • \$120,000 from BIA Assessment • \$588,000 from other sources 	\$708,000	see map	Marketing Special Events Safety Maintenance and Beautification Administration	2

Appendix A

BID Name	Business Mix / Assessment Methodology
Downtown Alameda Business Association (Park Street Business Improvement Area)	<p>Non-Retail: Area A - \$172 Area B - \$110</p> <p>Retail Service: Area A - \$0.40/\$1,000 Gross Receipts (min: \$172; max: \$2,259) Area B - \$0.20/\$1,000 Gross Receipts (min: \$110; max: \$1,136)</p> <p>Retail Goods: Area A - \$0.40/\$1,000 Gross Receipts (min: \$336; max: \$2,259; +surcharge of \$4,495 if business exceeds 30k sqft) Area B - \$0.20/\$1,000 Gross Receipts (min: \$172; max: \$1,136)</p> <p>Financial/Utilities: Areas A & B: \$1,136</p>
Palo Alto Downtown Business and Professional Association (Downtown Palo Alto Business Improvement District)	<p>Retailers and Restaurants: Zone A: \$225 (under 6 FTE); \$340 (6-10 FTE); \$450 (11+ FTE) Zone B: \$170 (under 6 FTE); \$260 (6-10 FTE); \$340 (11+ FTE)</p> <p>Service Businesses: Zone A: \$170 (under 4 FTE); \$260 (4-6 FTE); \$340 (7+ FTE) Zone B: \$130 (under 4 FTE); \$200 (4-6 FTE); \$260 (7+ FTE)</p> <p>Professional Businesses: Zone A: \$60 (0.26-1 FTE); \$110 (2-4 FTE); \$170 (5-9 FTE); \$225 (10+ FTE) Zone B: \$50 (0.26-1 FTE); \$90 (2-4 FTE); \$130 (5-9 FTE); \$170 (10+ FTE)</p> <p>Lodging Businesses: Zone A: \$225 (up to 20 rooms); \$340 (21-40 rooms); \$450 (41+ rooms) Zone B: \$170 (up to 20 rooms); \$260 (21-40 rooms); \$340 (41+ rooms)</p> <p>Financial Institutions: Zones A & B: \$500</p>
Downtown Association of Santa Cruz (Downtown Santa Cruz Business Improvement District)	<p>\$0.41/square foot</p> <p>Retail & Food: Type 1 - 100%</p> <p>Financial, Bars, and Theaters: Type 2 - 60%</p> <p>Wholesale Trade, Services and Professions, Auto Dealers: Type 3 - 40%</p> <p>Zone Factors: Zone 1 - 100%; Zone 2 - 60%</p> <p>Assessment = Business SqFt x \$0.41 x Type% x Zone% + \$50</p>
Downtown Novato Business Association (Downtown Business Improvement District)	<p>Retailers/Restaurants: Zone A: \$158 (1-3 employees); \$263 (4-6 employees); \$368 (7+ employees) Zone B: \$79 (1-3 employees); \$131 (4-6 employees); \$184 (7+ employees)</p> <p>Service Businesses: Zone A: \$158 Zone B: \$79</p> <p>Professional Businesses: Zone A: \$131 Zone B: \$65</p> <p>Financial Institutions: Zones A & B: \$525</p> <p>Lodging (Bed & Breakfast): Zones A & B: \$158</p> <p>Lodging (Hotels and Motels): Zones A & B: \$263</p>
Petaluma Downtown Association (Downtown Business Improvement District)	Based on Zone, type of business, number of employees
Downtown Organization of Santa Barbara (Downtown Business Improvement District / Old Town Business Improvement District)	<p><u>Old Town BID</u></p> <p>Businesses located on State Street: equal to 100% of business license (minimum of \$100)</p> <p>Businesses not located on State Street: equal to 75% of business license (minimum of \$100)</p> <p>Automobile Sales and Service Businesses: \$600 max</p> <p>Other Businesses: Wholesale, Professional, Real Estate: \$100</p> <p><u>Downtown BID</u></p> <p>Professionals: equal to 15% of business license (minimum of \$50)</p> <p>All others: equal to 100% of business license</p>
Downtown Long Beach PBIA	<p>Independent Contractors: Base fee of \$317.23 + \$5.36 per employee</p> <p>All Other Businesses: Base fee of \$461.92 + \$7.76 per employee</p>
East Anaheim Street PBIA	<p>Non-Profit: Base fee of \$100</p> <p>Commercial / Industrial Space Rental: Base fee of \$120</p> <p>Contractors, Insurance Companies, Manufacturing, Misc Mobile, Professionals, Services, Vending & Wholesale: Base fee of \$200 + \$15 per employee</p> <p>Financial Institutions, Recreation / Entertainment, Retail & Unique Business: Base fee of \$300 + \$15 per employee</p>
Downtown Santa Ana Business Improvement District	<p>1.5 times the annual business license tax for the following businesses:</p> <p>Amusement Services, Pawnbrokers, Service Stations, Retail Sales, Hotels, Motels, Theaters, Food Establishments</p> <p>0.25 times annual business license tax for the following businesses:</p> <p>Commercial Rental Property, Rental Property, Residential and Rooming House</p> <p>1 times the annual business license tax for all other businesses</p>
Huntington Beach Downtown Business Improvement District	<p>Retail / Restaurants: Zone 1 - \$351 (<= 1ksqft); \$702 (1,001sqft-2,500sqft); \$1,053 (2,501sqft-4,999sqft); \$1,404 (5k+sqft) Zone 2 - \$200 (<= 1ksqft); \$400 (1,001sqft-2,500sqft); \$600 (2,501sqft-4,999sqft); \$800 (5k+sqft)</p> <p>Hotels: Zone 1 - \$468 (<= 20 rooms); \$936 (21-50 rooms); \$1,404 (50+ rooms) Zone 2 - \$400 (<= 20 rooms); \$800 (21-50 rooms); \$1,200 (50+ rooms)</p> <p>Services / Offices: Zone 1 - \$281 (First Floor); \$120 (Basement or 2nd Floor+, <=1ksqft); \$150 (Basement or 2nd Floor+, 1,001sqft-2,500sqft); \$300 (Basement or 2nd Floor+, 2,501sqft-4,999sqft); \$700 (Basement or 2nd Floor+, 5k+sqft) Zone 2 - \$160 (First Floor); \$90 (Basement or 2nd Floor+, <=1ksqft); \$120 (Basement or 2nd Floor+, 1,001sqft-2,500sqft); \$150 (Basement or 2nd Floor+, 2,501sqft-4,999sqft); \$350 (Basement or 2nd Floor+, 5k+sqft)</p> <p>Cart / Kiosk: Zone 1 - \$100 Zone 2 - \$80</p> <p>Banks / ATM: Zone 1 - \$600 Zone 2 - \$400</p> <p>Seasonal: Zone 1 - \$500 Zone 2 - \$300</p>

Appendix A

BID Name	Non-Profit	Hospital	2nd Floor
Downtown Alameda Business Association (Park Street Business Improvement Area)	No - only businesses selling things are assessed	"Health/Medical Professions" listed as a Non-Retail use	Businesses treated the same as those on the ground floor
Palo Alto Downtown Business and Professional Association (Downtown Palo Alto Business Improvement District)	No - specifically exempt	"Doctors" listed as Professional Business use	Second floor (and higher) businesses located within Zone A are assessed the same as similar street-level businesses within Zone B
Downtown Association of Santa Cruz (Downtown Santa Cruz Business Improvement District)	Yes	Yes - lots of medical professions + Kaiser Medical Office -	Businesses treated the same as those on the ground floor
Downtown Novato Business Association (Downtown Business Improvement District)	Not clear if non-profits are assessed	Yes - lots of medical professions	Businesses treated the same as those on the ground floor
Petaluma Downtown Association (Downtown Business Improvement District)	No - specifically exempt	Some Medical/Dental uses	Businesses treated the same as those on the ground floor
Downtown Organization of Santa Barbara (Downtown Business Improvement District / Old Town Business Improvement District)	No - specifically exempt	Yes - if for profit	Businesses treated the same as those on the ground floor
Downtown Long Beach PBIA	No	Yes - lots of medical professions	Businesses treated the same as those on the ground floor
East Anaheim Street PBIA	Yes - base fee only	Yes - lots of medical professions	Businesses treated the same as those on the ground floor
Downtown Santa Ana Business Improvement District	No	Some Medical/Dental uses	Businesses treated the same as those on the ground floor
Huntington Beach Downtown Business Improvement District	No, but may voluntarily participate by paying \$30	Some Medical/Dental uses	Yes

Appendix B
Downtown San Mateo Association
Downtown Business Improvement Area
Proposed Assessment Rates for FY 2020/21 Assuming a Budget of \$350,000, Zone 2 Factor of 50%

Business Type	Zone 1				
	Current Structure		Revised Structure		
	FY 2019/20		FY 2020/21		
	Benefit Factor	Rate	Benefit Factor	Rate @ \$350k	Annual % Change
Retail: \$0 - \$150,000	1.00	\$166.36	1.00	\$182.72	9.83%
Retail: \$150,001 - \$400,000	2.00	332.72	2.00	365.44	9.83%
Retail: \$400,001 - \$600,000	4.00	665.43	4.00	730.88	9.84%
Retail: \$600,001 - \$1,000,000	6.00	998.15	6.00	1,096.32	9.84%
Retail: \$1,000,001 +	8.00	1,330.88	8.00	1,461.76	9.83%
Professional ¹	0.60	99.82	-	-	-100.00%
Miscellaneous ²	0.60	99.82	-	-	-100.00%
Service ¹	0.80	133.08	-	-	-100.00%
Hotel ³	1.60	266.18	-	-	-100.00%
Financial	6.00	998.15	6.00	1,096.32	9.84%
Mills Health Center ⁴	-	-	24.00	4,385.28	n/a
Professional: Up to 5 Employees ¹	-	-	2.00	365.44	n/a
Professional: 6-15 Employees ¹	-	-	6.00	1,096.32	n/a
Professional: 16-35 Employees ¹	-	-	9.00	1,644.48	n/a
Professional: 36-75 Employees ¹			12.00	2,192.64	n/a
Professional: 76 + Employees ¹⁵			12.00	2,192.64	n/a
Service: Up to 5 Employees ¹	-	-	1.50	274.08	n/a
Service: 6-15 Employees ¹	-	-	4.50	822.24	n/a
Service: 16-35 Employees ¹	-	-	6.75	1,233.36	n/a
Service: 36-75 Employees ¹			9.00	1,644.48	n/a
Service: 76 + Employees ¹⁶			9.00	1,644.48	n/a

1 - The *Professional* and *Service* categories are proposed to be broken-up into five new categories, with tiers based on employee counts. For purposes of this analysis, assumptions were made regarding employee counts at existing businesses within the DBIA (using the listing of business licenses provided by the City of San Mateo), as such information is not available from the City of San Mateo.

2 - NBS proposes to eliminate the *Miscellaneous* category and reassign existing businesses with that designation into one of the *Professional* or *Service* categories.

3 - Only one business in the DBIA is classified as *Hotel*; however, it is not actually a hotel, it is a rooming house. In the future, NBS recommends that the *Hotel* category be consolidated into one of the *Service* categories.

4 - Assigned 24 times the Benefit Factor assigned to *Retail: \$1,000,001 +*.

5 - Base rate of \$2,192.64, plus \$9.79 per employee over 75 employees.

6 - Base rate of \$1,644.48, plus \$7.34 per employee over 75 employees.

Appendix B
Downtown San Mateo Association
Downtown Business Improvement Area
Proposed Assessment Rates for FY 2020/21 Assuming a Budget of \$350,000, Zone 2 Factor of 50%

Business Type	Zone 2				
	Current Structure		Revised Structure		
	FY 2019/20		FY 2020/21		
	Benefit Factor	Rate	Benefit Factor ⁴	Rate @ \$350k	Annual % Change
Retail: \$0 - \$150,000	0.40	\$66.55	0.50	\$91.36	37.28%
Retail: \$150,001 - \$400,000	0.60	99.82	1.00	182.72	83.05%
Retail: \$400,001 - \$600,000	0.80	133.10	2.00	365.44	174.56%
Retail: \$600,001 - \$1,000,000	1.20	199.62	3.00	548.16	174.60%
Retail: \$1,000,001 +	2.00	332.72	4.00	730.88	119.67%
Professional ¹	0.40	66.55	-	-	-100.00%
Miscellaneous ²	0.40	66.55	-	-	-100.00%
Service ¹	0.40	66.55	-	-	-100.00%
Hotel ³	0.40	66.55	-	-	-100.00%
Financial	4.00	665.44	3.00	548.16	-17.62%
Professional: Up to 5 Employees ¹	-	-	1.00	182.72	n/a
Professional: 6-15 Employees ¹	-	-	3.00	548.16	n/a
Professional: 16-35 Employees ¹	-	-	4.50	822.24	n/a
Professional: 36-75 Employees ¹	-	-	6.00	1,096.32	n/a
Professional: 76 + Employees ¹⁵	-	-	6.00	1,096.32	n/a
Service: Up to 5 Employees ¹	-	-	0.75	137.04	n/a
Service: 6-15 Employees ¹	-	-	2.25	411.12	n/a
Service: 16-35 Employees ¹	-	-	3.38	616.68	n/a
Service: 36-75 Employees ¹	-	-	4.50	822.24	n/a
Service: 76 + Employees ¹⁶	-	-	4.50	822.24	n/a

¹ - *Professional* and *Service* categories are proposed to be broken-up into five new categories, with tiers based on employee counts. For purposes of this analysis, assumptions were made regarding employee counts at the existing businesses within the DBIA (using the listing of business licenses provided by the City of San Mateo), as such information is not available from the City of San Mateo.

² - NBS proposes to eliminate the *Miscellaneous* category and reassign existing businesses with that designation into one of the *Professional* or *Service* categories.

³ - Only one business in the DBIA is classified as *Hotel*; however, it is not actually a hotel, it is a rooming house. Accordingly, NBS recommends that the *Hotel* category be consolidated into one of the *Service* categories.

⁴ - The Benefit Factor for all business types in Zone 2 have been modified to be 50% (Zone 2 Factor) of the Benefit Factor for corresponding business types in Zone 1. The Zone 2 Factor is not consistently applied under the current rate structure.

⁵ - Base rate of \$1,096.32, plus \$4.89 per employee over 75 employees.

⁶ - Base rate of \$822.24, plus \$3.67 per employee over 75 employees.

Appendix C
Downtown San Mateo Association
Downtown Business Improvement Area
Comparing Average Assessments Between Current Structure and Proposed Structure

	Zone 1	
	Current Structure	Revised Structure
	FY 2019/20	FY 2020/21
Business Type	Average Assessment	Average Assessment @ \$350k
Retail - All Tiers	\$739.98	\$825.19
Professional - All Tiers	99.82	795.23
Service - All Tiers	133.08	474.61
Financial	998.15	1,113.10
Mills Health Center	-	4,452.40

	Zone 2	
	Current Structure	Revised Structure
	FY 2019/20	FY 2020/21
Business Type	Average Assessment	Average Assessment @ \$350k
Retail - All Tiers	\$183.92	\$407.11
Professional - All Tiers	66.55	309.19
Service - All Tiers	66.55	226.93
Financial	665.44	556.55