



CITY OF SAN MATEO

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Agenda Report

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TO: City Council

FROM: Drew Corbett, City Manager

PREPARED BY: City Manager's Office

MEETING DATE: October 17, 2022

SUBJECT:

Downtown Business Improvement Area – Resolution of Intent

RECOMMENDATION:

Adopt a Resolution of Intent to modify the basis and method of levy for the Downtown Business Improvement Area and set a public hearing for November 7, 2022, to consider proposed modification of assessments.

BACKGROUND:

The Downtown San Mateo Association (DSMA) has served as the Downtown Business Improvement Area (DBIA) administrator since its formation in 1986. The mission of the DSMA is to create a welcoming and economically vibrant commercial core. The assessments collected are used to provide for enhanced cleaning services and complementary programs for Downtown businesses. Over the years, the DSMA has promoted local businesses, organized special community events, and engaged in cleaning and beautification projects.

The DSMA has not increased the DBIA assessments, even to adjust for the cost of living, since 2009. In addition, during the pandemic, the DSMA reduced the assessments by 50% for a two-year period in order to assist the Downtown businesses that were struggling during that time. The DSMA had previously proposed a modification of its assessment structure in August 2017. The proposal was not approved by City Council due to protests from the business community. A few short months later in March 2018, the Executive Director departed the organization. Since the departure of the former Executive Director, the DSMA has been able to continue its work through a dedicated, all-volunteer board with Lew Cohen, President of DSMA, at the helm, and administrative support from City staff. The City has also provided shared office space for the DSMA at the Downtown Coordinator's office on 1st Avenue at no cost to the DSMA.

The DSMA elected to postpone the hiring of an executive director position in order to reserve funds to hire consultants to conduct an assessment modification study, financial audit, and to do outreach businesses for the proposed assessment modification. In the meantime, the volunteer board continued the basic functions such as managing a cleaning contract, marketing, hosting regular meetings, advocating on behalf of Downtown businesses.

In 2019 DSMA hired NBS, a special financing district consultant to study its current assessment structure, understand best practices for Downtown Business Improvement Districts (BIDs), and propose a new BID assessment schedule to distribute the cost of fees more equitably across all businesses in the Downtown. The initial study was completed in February 2020 and the DSMA was prepared to engage in public outreach when the work was halted due to the State's emergency public health mandate for everyone to shelter-in place in March 2020. Thus, instead of requesting for a fee increase, the DSMA requested the City Council reduce the DBIA fees by 50% in June 2020. The request was continued for a second year at the June 21, 2021 meeting because of the on-going spread of the COVID-19 virus and its economic damage on small businesses.

At the June 20, 2022, City Council meeting, the City Council approved the full restoration of the DBIA fees to existing levels and indicated support for the DSMA's request to bring forth a proposal to modify the basis and method of the DBIA fees in the fall. Thus, the DSMA re-engaged with NBS to update the study and engage in businesses outreach and is now ready to return to the City Council with a proposed rate schedule that would distribute the fees more equitably among the businesses in the Downtown.

Proposed Assessment Changes

For the last twelve years, the DSMA has not increased the DBIA assessments despite rapidly rising costs in San Mateo and the surrounding region. For fiscal year 2022-23, DSMA estimated the DBIA assessments to be approximately \$150,000, anticipating a revenue reduction due to an economic slowdown. In order to maintain existing services and provide long-term sustainability of the BID, an adjustment is necessary. The new proposed rate was created based on DSMA's goal of a reaching an annual budget of \$400,000. The new rate chart proposed by the DSMA is included as attachment 2 of this report.

The proposed new rate is based on business type, location, size and employee count.

- *Business Type:* Businesses have been categorized into Retail, Professional, Service and Financial based on their North American Industry Classification (NAIC) codes. The hotel and miscellaneous categories have been removed.
- *Location:* The zone of the business is determined by proximity to the Downtown core. Businesses located in Zone 1 pay higher assessments as they tend to see greater benefits from cleanliness, beautification projects, and promotional activities than businesses further from the Downtown. Businesses located in Zone 2 are assessed at 50% of Zone 1. The existing zones and boundaries of the DBIA will remain the same.
- *Size:* For retail businesses, the proposed rate is based on the gross receipts of a business and the existing five tiers have remained the same at \$0-\$150,000, \$150,001-\$400,000, \$400,001-\$600,000, \$600,001-\$1,000,000 and over \$1,000,000. For professional and service businesses, the proposed rate is based on the number of employees working for the business. Professional and Service businesses are categorized into five tiers from 0 to 5 employees, 6-15 employees, 16-35 employees, 36-75 employees, and over 75 employees.

Rate Change by Business Type

Retailers are businesses that offer goods and products for sale and include restaurants, bars, grocery stores, furniture stores, clothing and apparel, jewelry, frames and similar. Retail business rates will increase from \$166.35 to \$200 for businesses with gross revenues of less than \$150,000 for zone 1 and from \$66.35 to \$100 for zone 2. The rate increases for each tier based on gross revenue and caps at \$1,500 for retailers with over a \$1,000,000 in revenues for zone 1 and \$750 for zone 2.

Professional businesses are primarily second floor users that offer highly specialized services such as software development, software integration, cloud storage, gaming, medical, legal, accounting, architectural, engineering services and similar. These businesses will see the most significant fee increase. Professional businesses located in Zone 1 will change from a flat rate of \$99.82 to a starting rate of \$550 for up to 5 employees and rising to \$3,050 for up to 75 employees. For businesses with over 75 employees, the business will be charged an additional \$14 per employee on top of the \$3,050 annual assessment. Professional businesses located in Zone 2 will change from a flat rate of \$66.55 to \$275 for up to 5 employees and rising to \$1,525 for up to 75 employees. For businesses with over 75 employees, the business will be charged an additional \$7 per employee on top of the \$1,525 annual assessment.

Service businesses provide personal services like hair salons, nail salons, massage services, dry cleaners, auto bodies, gyms vacuum repair shops and similar. Service businesses located in zone 1 will change from a flat rate of \$133.08 to a starting rate of \$400 for up to 5 employees and rising to \$2,300 for up to 75 employees. For service businesses with over 75 employees, the business will be charged an additional \$10 per employee on top of the \$2,300 annual assessment. Service businesses located in zone 2 businesses will change from a flat rate of \$66.55 to \$200 for up to 5 employees and rising to \$1,150 for up to 75 employees. For businesses with over 75 employees, businesses will be charged an additional \$5 per

employee on top of the \$1,150 annual assessment.

Financial businesses providers include money management firms, payment systems, digital banking and brick and mortar banks. Financial businesses will continue to be assessed at a flat rate. Financial businesses located in zone 1 will change from a \$998.15 to \$1,500 and from \$665.44 to \$775 for zone 2.

Mills Health Center is a non-profit hospital located in the Downtown. The hospital does not have to contribute to the assessment but is voluntarily proposing an annual \$6,050 contribution to the DSMA to support the fee adjustment effort because the hospital understands the value of a vibrant Downtown and the need for increased sanitation and having a vibrant and clean Downtown for its employees, patients, and visitors to the hospital.

The changes in the proposed assessment structure and fees are intended to share costs more equitably among businesses in the DBIA and provide a sustainable revenue stream to maintain and improve services in the Downtown. While the all volunteer DSMA Board has done an incredible job carrying out the work of the DSMA, the organization cannot continue indefinitely without an executive director. With the revenues provided by the current annual assessment, the organization cannot hire a skilled executive director while maintaining its current level of services and programs. Thus, the DSMA is requesting the Council to support the modification of the DBIA fee and the proposed fee schedule.

Business Outreach

The DSMA contracted with CivicMic for outreach and engagement on the fee proposal. The outreach portion focused on connecting with business owners in the Downtown Business Improvement Area and informing them about DSMA's desire for input on the services currently provided and the proposed fee change. CivicMic mailed postcards with information about the DSMA in Spanish and Chinese, and held an online meeting on March 30, 2022. A survey launch followed these outreach efforts to provide another mechanism for business owners to provide feedback. The DSMA also conducted an in-person meeting on September 22, 2022, where representatives from 10 businesses in the Downtown attended. The results from the outreach indicate that the business stakeholders are generally aware of the services being provided by DSMA and recognized these services as important to the success of their businesses. Maintaining the cleanliness of the area is the most important service identified by business owners, while beautification and the promotion of public events are also valued. Additionally, there was a range of support for the fee change. While many business owners supported restructuring of the fee to make it more equitable to all businesses, there were also businesses who felt indifferent to the fee change. Staff have not received protest as of this report.

Projected Annual Revenue

Under the existing assessment schedule, DBIA revenues averaged approximately \$180,000 for the last 10 years before the pandemic. To support small businesses through the pandemic, the DSMA reduced its fees by 50% in fiscal year 2020-21 and again in fiscal year 2021-22. Thus, for the last two years the assessment was approximately \$92,000. Under the proposed new structure, annual assessment is projected to range between \$360,000 to \$400,000.

In year one, the additional funds would support:

- Hiring of a full-time executive director
- Enhanced and additional cleaning services across the district
- Expanded marketing to promote downtown and businesses
- New event programming to attract new and returning patrons and enhance the Downtown experience

If approved, the new assessment is anticipated to start on July 1, 2023. This will allow businesses time to plan for the new rates and provide a longer recovery time for businesses who are still struggling financially. Additionally, it allows time for the City to implement the new rates internally through our Business License Tax system.

Approval Process

Before the City Council may act on DSMA's request to modify the DBIA assessment schedule, the request must be considered at two Council meetings. At the first meeting on October 17, 2022, the City Council is asked to adopt the Resolution of Intent to modify the basis and method of the assessments for the DBIA, included as attachment 1 to this

report. If the Council decides to move forward, a public hearing will be held on November 7, 2022 on the proposed modification to the DBIA assessment structure and to amend the existing ordinance to change the basis of the fee structure and to accommodate the proposed fees.

Should the Council adopt the Resolution of Intent and set the public hearing, each business in the DBIA will receive a second letter regarding the hearing at least 10 days prior to the meeting. Additionally, a newspaper notice will be published once at least 7 days before the public hearing. Protests received from businesses paying 50% or more of the total proposed assessment will result in the termination of these proceedings and no further proceedings to modify the basis or method of the levy will be taken.

BUDGET IMPACT:

Modification to the basis and method of levy of the annual DBIA assessment does not have an impact on the General Fund.

ENVIRONMENTAL DETERMINATION:

This resolution is not a project subject to CEQA, because it is an organizational or administrative activity that will not result in direct or indirect physical changes in the environment. (CEQA Guidelines Section 15378(b)(5).)

NOTICE PROVIDED

All meeting noticing requirements were met. The DSMA sent a notice to all businesses in the DBIA informing them about the public hearing with a copy of the proposed assessment rates.

ATTACHMENTS

Att 1 - Proposed Resolution of Intent

Att 2 - NBS Fee Modification Study

Att 3 - Public Comments

STAFF CONTACT

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