



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: November 07, 2022

SUBJECT:
Downtown Business Improvement Area - Public Hearing

RECOMMENDATION:

Introduce an Ordinance to modify the basis and method of levy for the Downtown Business Improvement Area (DBIA); and adopt a Resolution to approve the Proposed Annual Assessment Schedule for the DBIA for Fiscal Year 2023-24.

BACKGROUND:

In accordance with Street and Highways Code Section 36500 and following, the City Council is required to hold two meetings to adjust the Downtown Business Improvement Area (DBIA) assessments. At the October 17, 2022 City Council meeting, the DSMA presented the proposal for assessment modifications and requested that the City Council adopt a resolution of intent to modify the basis and method of levy for the DBIA and scheduled a public hearing on November 7, 2022, to approve the proposed method and basis for the assessment.

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 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 is 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 \$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.

Public 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 (DBIA) 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 English, 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 indicated 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. DSMA has continued to outreach to businesses to inform them of the fee change and garner support for the November meeting.

The DSMA sent out letters to every impacted business ahead of the October 17th meeting where the resolution of intent was considered. The City sent out a second letter announcing the public hearing with a copy of the adopted resolution of intent on October 24, 2022. Public comments, including written protests, have been included as Attachment 4 to this report. Any additional public comments and/or written protests received after the preparation of this report will be presented at the public hearing on November 7, 2022.

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.

Public Hearing

At the November 7, 2022 public hearing, the City Council will review the public comments, including the written protests, and consider whether to approve the proposed resolution and draft ordinance included as Attachment 1 and 2 to modify the basis and method for DBIA assessment.

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 struggling financially. Additionally, it allows time for the City's finance department to implement the new rates internally through our Business License Tax system.

In accordance with Streets and Highways Code Section 36535, if written protests are received from the owners of businesses in the proposed area that will pay 50% or more of the assessment, the proposed modification will not occur and no further proceedings are to take place for one year.

BUDGET IMPACT:

Modifying the DBIA assessment fee does not have an impact on the General Fund.

ENVIRONMENTAL DETERMINATION:

This item is exempt from California Environmental Quality Act (CEQA) requirements because it is an administrative activity that will not have a significant effect on the environment per CEQA Guidelines section 15378(b)(5).

NOTICE PROVIDED

All meeting noticing requirements were met. Businesses within the DBIA were sent a letter announcing the public hearing with a copy of the adopted resolution of intent on October 24, 2022. A public notice and the adopted resolution of intention was also published in the San Mateo Daily Journal for 7 days.

ATTACHMENTS

Att 1 – Draft Ordinance
Att 2 – Proposed Resolution
Att 3 – NBS Study
Att 4 – Public Comments

STAFF CONTACT

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