

# MEMORANDUM

Office of the City Manager



**DATE:** June 30, 2020

**TO:** Mayor and Councilmembers

**THROUGH:** Steve McHarris, City Manager *Steve McHarris*

**FROM:** Alex Andrade, Economic Development Director  
Walter C. Rossmann, Finance Director

**SUBJECT: Business License Tax, Annual Fire Inspection Permit Fees and Minimum Wage**

## Background

At the June 16, 2020 City Council meeting, Councilmember Karina Dominquez requested information regarding City charges and costs for which the City may provide assistance to small businesses as part of the Announcements section of the Agenda which was deferred to a small business loan program item later on the agenda. The City Council approved the \$200,000 Small Business Loan Program utilizing Community Development Block Grant (CDBG) funds while collaborating with Enterprise Foundation and Kiva as the City's fiscal agents. Aside from approving the small business financial assistance program, Councilmember Dominquez's initial information request was incorporated as part of the motion.

## Analysis

Based on Council direction, this Memorandum provides information on City charges and costs which are applicable to most small businesses such as Business License Tax, Annual Fire Inspection Permit Fees, and Minimum Wage. This memorandum does not discuss fees related to new construction or tenant improvements .

### Business License Tax

Per the City's ordinance, in general, every business within our City is assessed \$35 as the basic annual Business License Tax rate, \$5 per employee for the first ten employees, \$1 per employee for the next 100 employees in excess of 10 employees, and \$0.25 per employee thereafter. Based on the federal definition, a micro business has 5 or fewer employees including the business owner. Therefore, a micro business, in general, pays up to \$55 in Business License Tax per year. For the specific Business License Tax by type of business, please review the attached City's [Business License Fee Schedule](#).

Per data from the City's Business License Tax database for business licenses issued between January 1 and May 1, 54% of all business licenses issued, businesses (not counting home occupations) paid a business license tax of \$100 or less per year and 24% of all business licenses issued, businesses (not counting home occupations) paid a business license tax between \$100 and \$500 per year. It is important to note that a business with multiple locations within the City, is required to request a business license for each location. The FY 2019-20 budget assumes \$355,000 in revenue from Business License Tax of which \$316,000 has been received as of May 31.

### **Annual Fire Inspection Permit Fees**

The City and Fire Department must adhere to the California Health and Safety Code, California Building Standards Commission, Office of the State Fire Marshall and the Milpitas Municipal Code to enforce regulations and building standards relating to fire and public safety. The State Fire Marshal Regulated Occupancies requires annually inspections on Institutional and Educational Facilities, Places of Assembly (Restaurants, Churches, Community Halls, Amusement Arcades, Gymnasiums, etc.), High-Rise Structures, Multi-Residential and Apartment Occupancies and Commercial Day-Care Facilities. Senate Bill 1205 requires further annual inspections hotels, motels, and apartment houses. SB 1205 states that Fire Departments must report annually to their governing authority regarding compliance with safety inspection requirements. The City's Fire Prevention Office is a fee-based cost recovery division that relies on the annual fees to support its staffed positions in order to carry out the above mandated inspections without subsidizing from the City's general fund. The FY 2019-20 budget assumes \$882,506 in revenue from Annual Fire Inspection Permit fee of which \$743,863 has been received as of May 31.

### **Minimum Wage**

In February 2017, the City Council approved a Minimum Wage Ordinance setting the minimum wage at \$15 per hour by July 1, 2019. Per the Ordinance, to prevent inflation from eroding its value, beginning on July 1, 2020, and each July 1<sup>st</sup> thereafter, the Minimum Wage is increased by a certain Consumer Price Index (CPI) as of February of each year not to exceed 5% with the amount of the Minimum Wage increase rounded to the nearest multiple of \$0.05. As of February 2020, the Bay Area Consumer Price Index (Urban Wage Earners and Clerical Workers, San Francisco-Oakland-San Jose, CA for All Items) increase was 2.5%. Based on this increase, the calculated new minimum wage rate amounts to \$15.375 and, consistent with the Ordinance, rounded to the nearest 5 cents, is \$15.40 effective July 1, 2020. For a part-time employee working 20 hours per week for 52 weeks, the increase to payroll amounts to \$416 annually plus relevant payroll taxes such as social security and Medicare.