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Title:	Recommendation to receive and file a report on recommendations on business license taxes and business fees with regard to the COVID-19 pandemic; Approve recommendation to allow deferral of payment of business license taxes and fees until March 31, 2021; and Approve a recommendation to provide for grants to businesses to offset business license taxes and fees for those businesses closed or materially restricted and impacted for an extended period of time due to the City Health Orders, with an estimated and maximum cost of \$1.3 million plus administrative costs of \$75,000. (Citywide)				
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11/17/2020	1	City Council	approve recommendation	Pass

Recommendation to receive and file a report on recommendations on business license taxes and business fees with regard to the COVID-19 pandemic;

Approve recommendation to allow deferral of payment of business license taxes and fees until March 31, 2021; and

Approve a recommendation to provide for grants to businesses to offset business license taxes and fees for those businesses closed or materially restricted and impacted for an extended period of time due to the City Health Orders, with an estimated and maximum cost of \$1.3 million plus administrative costs of \$75,000. (Citywide)

Since the onset of the pandemic, the City has taken a number of substantive steps to aid businesses impacted by the COVID-19 pandemic and the associated Safer at Home Health Orders, including various assistance and grant programs, emergency loans, technical assistance, unemployment insurance benefit support, special permitting, payment plans, and the deferral of business license taxes and business-related fees, including health and fire fees, through November 30, 2020.

On August 4, 2020, the City Council asked staff to provide additional options for relief to restaurants and other businesses for license taxes and health, fire, and business licensing fees. An initial update regarding this request was provided on August 17, 2020, and a second

update was provided October 9, 2020 (both attached). The purpose of this report is to provide the City Council with requested background information regarding business license and inspection fees as well as to provide specific recommendations to provide additional relief to businesses hit particularly hard by the impacts of COVID-19 and related closures.

Background

In Fiscal Year 2019 (FY 19), a normal, non-pandemic year, the City collected approximately \$24 million in taxes and fees from businesses, including about \$4.8 million in cannabis tax revenues (\$19.3 million not including cannabis). This is approximately the amount of revenue from taxes and fees budgeted and expected to be collected in FY 20 and FY 21. Table 1 on the following page shows the taxes and fees collected in calendar year 2019 and is likely very close to the FY 19 collected amount (fiscal year data is not available in the required format).

Table 1 - Taxes and Fees Collected from Businesses in Calendar Year 2019

Beginning in March 2020, partway through FY 20, the declaration of an emergency related to COVID-19 resulted in severe restrictions to business activities, particularly in the service sectors that include restaurants, bars, and personal grooming businesses, which require annual fire and health inspections. As described above, one of the many actions the City took to assist businesses was to allow the deferment of taxes and fees for businesses that determined they could not pay them during the pandemic. This program is helpful to the impacted businesses, even though the fees and taxes are a small part of overall costs for a business.

As shown in Table 2, overall revenue from business license taxes and fee revenue was down a relatively modest 10 percent between February 2020 (February taxes were due in March) through September 2020 (due in October) compared to the previous fiscal year. Overall business license taxes and fees revenue was down by approximately 4 percent for the entire fiscal year (compared to FY 19). These numbers do not include cannabis taxes as those businesses did not appear to be negatively impacted by the pandemic and, if included, would distort the overall results. The unusual pattern in Table 2 for June and July showing FY 20 higher is likely a short-term timing issue that also reduces FY 20 in other nearby months and does not appear to distort the overall results for the eight-month period.

Table 2 - Taxes and Fees Collected from Businesses in FY 20 vs. FY 19

The business sectors where payment was deferred the most were the retail and services sectors. These sectors include restaurants and beauty salons, et al., and are the same business sectors experiencing the greatest impacts of the Health Order restrictions through mandated closures. Overall, it appears that many businesses are surviving the pandemic but that others are having great difficulty, especially if they have been partially or completely closed by the Health Order.

Approximately \$10 million in fee revenue is normally collected annually from businesses, with

health inspection-related fees being the largest fee category. This includes approximately \$1.5 million in Business Improvement District (BID) fees collected and passed through to the BIDs, which is essential for the BIDs to continue to operate and provide support services to their member businesses. Departments have reviewed every fee they charge and have found very few where the services are not or will not be provided. All staff and resources needed for these City services are paid for by fee revenue. Many of these services are provided annually or on-demand and those services are expected to continue to be provided regardless of whether the business is open or temporarily closed. If a business is temporarily closed, annual inspections will be completed when the business is open again. It is unlikely that the City will receive complaints regarding a business that is closed, so complaint-driven inspections and services will likely not be provided while a business is closed. However, in general, services are provided by the City or will be provided when a business is open, even if it is not open for full service. In any event, the City is fully paying for the cost of staff to provide those services.

Findings

Based on the above information, the findings about the overall situation are as follows:

1. Services provided by taxes and fees collected from businesses are expected to continue to be provided.
2. The City continues to make expenditures at the normal rate for the staff and services related to the tax and fee revenue of \$24 million annually. This funding is necessary to balance the budget.
3. Most businesses can pay these relatively small taxes and fees (compared to their other fixed costs).
4. Some businesses are struggling and any help, even relief from the relatively small taxes and fees (compared to their other costs), will help them survive.
5. The pandemic is far from over and while many businesses are not at risk, others are at risk and some will fail.
6. Where financially feasible, it is in the interest of the City to consider assisting businesses to survive this unique natural disaster. Businesses are key to the City's economic activity including employment for Long Beach residents and tax revenue to the City; and on the other hand, the taxes and fees are used to provide services to businesses and the public and those services are still being provided.
7. There are resources available, and potentially more coming for businesses and restaurants through current and new grants and businesses and restaurants and can get information through the Economic Development Department using either its website at www.longbeach.gov/4BIZ <<http://www.longbeach.gov/4BIZ>> or by phone at 562 570 4BIZ.

Recommendations

Based on the findings and analysis above, the following recommendations are proposed for City Council approval:

1. Extend the business license tax and fee deferral period until March 31, 2021, for those

self-selected business owners who believe it will help them survive the pandemic.

2. Provide an application process through the Economic Development Department for a “Business License Tax and Fee Grant,” pro-rated for a portion of the business license taxes and fees based on how long businesses are materially restricted and impacted as a result of the Health Order and meet the general criteria below (additional details for what qualifies and what is restricted will be developed as part of implementation).

3. Provide a January 1 through March 31, 2021 application period for calendar year 2020 fees.

Grant Program Overview

· Eligibility

o Grant amount would be for the total business license taxes and fees billed to the business during the calendar year period. The total taxes and fees billed would be inclusive of BID fees and any penalty for late payment fee incurred during that time for the taxes or fees. The grant is prorated as described below.

o Eligible businesses are those that can demonstrate major financial hardship because of the Long Beach Health Order impacting their primary business model such as a sit-down restaurant or a personal services business where customers would normally, in a non-pandemic environment, be served and would stay indoors for 20 minutes or longer. Examples include restaurants that are primarily sit-down for services, bars and entertainment venues, and personal services establishments (barbershops, gyms, beauty salons, tattoo parlors, massage, etc.). Eligibility is based on a grant application and self-reporting providing the information requested in the grant process, subject to verification by the City.

o Businesses must not be in bankruptcy or permanently closed at the time of application.

o Non-eligible businesses include (but are not limited to) retail stores, grocery stores, construction businesses, businesses that use an office environment, and any business that can effectively use telecommuting or conference. Fast food and quick serve restaurants also do not qualify. Additional restrictions and exclusions may be included when the full grant implementation guidelines are developed.

· Administration

o Temporary staff are expected to be hired to administer the grant program, assist with determining eligibility, and recording the information in our accounting systems; contractual services would be used to assist with any program modifications or other needs. The administration cost is roughly estimated at \$75,000.

o The Economic Development Department will oversee the grant program and will determine eligibility and the grant amounts.

o Normal billing for business license taxes, fees and penalties will begin April 1, 2021, for any unpaid taxes or fees not offset by the grant program.

o The grant is a payment to the business to assist a business’s cash flow, not a reduction or elimination of any required tax or fee payment. To the extent a business has deferred payment, the grant will be retained by the City to avoid the situation and double work where the business pays the taxes and fees and then the City provides a cash flow assistance grant.

o The grant process will be based on self-reporting with the ability of the City to seek

verification. Basic information provided by a business is expected to include: 1) the restrictions provided by the Health Order as it effected the business over time, e.g., closed for X days, 25% occupancy for X days, outdoors only for X days, 2) the steps the business is taking to adjust, 3) the revenue and expenditure impact during the eligibility period (2020), and 4) the amount of the Long Beach business license taxes and business fees paid and/or billed during the eligibility period (2020).

- o The grants will use equity criteria similar to the CARES Act business grants that create additional emphasis on supporting those in minority communities, low-income areas, and areas most impacted by COVID. The maximum amounts recommended (up to 100%) may be adjusted for various businesses through an equity point system similar to the CARES Act business grants.

- o The total grant payments would be a maximum of \$1.3 million and will be awarded on a first come, first served basis subject to the equity criteria described above.

- Funding

- o The grant program including administrative costs, will be funded first from any grant funds, to the extent they are available, and then from the expected use of General Fund emergency reserves and potentially Health Fund reserves as needed. Given the financial crisis our businesses are in, it would seem to be an appropriately limited and logical use of emergency reserves, if the City Council believes it is a critical expense in this pandemic situation.

This matter was reviewed by Finance Director John Gross on November 8, 2020 and by Assistant City Attorney Michael J. Mais on October 28, 2020.

EQUITY

The City has incorporated the Equity Toolkit in this recommendation, as requested by the City Council on April 21, 2020. For many underrepresented community members, the pandemic has the potential to exacerbate existing racial, economic, health, education, and gender inequities. In response, the City, in developing the detailed implementation guidelines, will consider racial and economic equity and examine how the most vulnerable businesses to the impacts of COVID-19 will be affected. As much as possible, spending allocations will be made equitably to address the greatest COVID vulnerability in priority areas.

City Council action is requested on November 17, 2020, to provide time to notify businesses of the deferral extension and implement the grant application program.

The first recommendation provides for deferral of business license taxes and fees for those business owners who decide it is in their interests due to the pandemic to not make immediate payment of business license taxes and fees (the deferral does not waive or forgive the taxes and fees, and for most businesses it will be in their interest to make timely payments). The deferral end-date extension, from the current November 30, 2020 to March 31, 2021, will not have an impact on the City's revenues as the City expects to still collect these taxes and fees within FY 21.

The second recommendation provides a grant for taxes and fees for eligible businesses impacted by the COVID-19 pandemic. With the cap of \$1.3 million in grants, the fiscal impact is a maximum of \$1.4 million over both grant eligibility periods, including \$75,000 for grant administration. This maximum and estimated costs are the same; the estimate is based on double the estimated amount of deferred tax and fee payments that occurred between March and October 2020. Because the FY 20 and FY 21 budget situations are very difficult and expected to have a combined shortfall that seems likely use up all the City's operating reserves this program will be very problematic to fund as it will likely require the use of our emergency reserves. While the City may be able to use any future federal assistance to support this, that funding is not guaranteed or currently available. To fund this now, it should be assumed that the cost for the grant program will be funded from General Fund emergency reserves and potentially Health Fund reserves (to the extent legally and financially feasible).

Notwithstanding the above analysis, it is also important to consider that a considerable number of the businesses who will be eligible for a grant have already deferred or will defer payment of their business license fees and taxes. In those situations, the City has not received revenue and may or may not receive that revenue in the foreseeable future. To the extent the City would never receive that money, the awarding of a grant has no net cost as the money effectively goes back to the City to make it whole in terms of deferred license taxes and fees. There is no way to assess whether this situation will have a significant impact on lowering the net City cost of the grant program.

BIDs that have had their revenue (collected by the City as one of the business fees) deferred due to the non-payment of business license fees will benefit from the proposed grant program as the program will ensure that at least some of the deferred fees are paid to them.

This recommendation has significant staffing impact beyond the budgeted scope of duties to develop and administer the grant program and is consistent with existing City Council priorities. Regardless of the significant staffing impact, the new program may result in difficult decisions for staff priorities as there are so many top priorities due to the pandemic and the budget situation that resources, regardless of funding, are difficult to find. There may be a positive local job impact as a result of the grant program, but the projected number of local jobs impacted is unknown. The grant program is expected to aid the local economy by helping severely impacted businesses survive the pandemic.

Approve recommendation.

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JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER