



CITY OF DUNWOODY

41 Perimeter Center East, Suite 250
Phone: 678.382.6700 • Fax: 678.382.6701
www.dunwoodyga.gov

MEMORANDUM

To: Mayor and City Council
From: Chris Pike, Finance Director
Date: September 13, 2010
Subject: **DISCUSSION OF THE BUSINESS LICENSE ORDINANCE**

ITEM DESCRIPTION

To discuss the occupation tax program of the City

BACKGROUND

We currently have six tax classes; each class with a different gross receipts charge and different per employee charge. Special rules apply to practitioners (such as doctors, lawyers, CPA's, etc), banks, and insurance companies. This discussion will not address these exceptions, but rather will focus on the "normal" procedures for most businesses.

On October 19, 2009, Council instructed staff to evaluate options to move to a flat gross receipts tax rate for all businesses. Subsequently, as not to move too quickly and make mistakes, Council decided to leave the current tiered structure in place for the 2010 tax year.

At the annual retreat, Council instructed staff to return to this issue in 2010 well enough in advance of the 2011 year so staff could revisit past issues as well as discuss changes to the ordinance and revisions to the rate structure.

On July 12, 2010, Council by majority agreed to revisit the rate structure and requested staff to compare with other Georgia jurisdictions similar to Dunwoody to evaluate the competitiveness of our tax rates.

ISSUES

Council needs to readdress the rate structure currently in place. While most of our revenues are set by contract or law, our occupation rates are one area where Council has both the flexibility to change and evidence that our current rates are well below our neighboring cities. Staff feels the occupation tax rate plays virtually no part in a business' decision to locate in a city. Dunwoody has a large daytime population who use our city's roads and other resources. When those employees and customers leave our town at night, they leave behind repairs that need addressing. Our businesses represent less than half of our assessed real estate tax base, but may account for significantly more infrastructure, policing, and development issues. The gap in revenue between our rate structure and the new Fulton County cities is 54%. Staff does not recommend closing that gap entirely, but Council should consider whether some increase could be done without forfeiting any competitive advantage over the other cities. In my opinion, Dunwoody offers a premium "product" in our location compared to those other cities, but we are selling it well below the market value. One note to keep in mind is that 20% of our taxpayers would not see any increase in their net taxes due by changing the gross receipts percentage as they are at or below the \$20,000 level.

Because of the importance the mall has on our tax base, I looked to other jurisdictions that have malls in order to evaluate our competitiveness in the market. DeKalb has four other malls (Stonecrest, Northlake, South DeKalb, and North DeKalb.) Because we know that rate structure, they were omitted from this schedule.

What I included in the evaluation were malls throughout the metropolitan area outside of DeKalb. And because of their proximity (and the ease of obtaining the data), I included the three other new cities in our area. I then took four “anchor” stores in the mall and evaluated what each rate would be all else held equal.

	Macy's	Diff %	Nordstrom	Diff %	Bloomingdale's	Diff %	Dillard's	Diff %
John's Creek	\$81,443	74.9%	\$ 62,316	75.5%	\$ 26,340	73.7%	\$ 28,794	74.6%
Sandy Springs	\$78,136	67.8%	\$ 59,746	68.3%	\$ 25,206	66.2%	\$ 27,555	67.1%
Lennox Square	\$75,736	62.6%	\$ 57,860	62.9%	\$ 24,527	61.7%	\$ 26,762	62.3%
Milton	\$72,582	55.9%	\$ 55,782	57.1%	\$ 23,025	51.8%	\$ 25,418	54.1%
Mall of GA	\$49,742	6.8%	\$ 38,247	7.7%	\$ 15,834	4.4%	\$ 17,472	5.9%
Gwinnett Place	\$49,742	6.8%	\$ 38,247	7.7%	\$ 15,834	4.4%	\$ 17,472	5.9%
Perimeter	\$46,568	0.0%	\$ 35,510	0.0%	\$ 15,165	0.0%	\$ 16,491	0.0%
Arbor Place	\$44,618	-4.2%	\$ 34,302	-3.4%	\$ 14,188	-6.4%	\$ 15,658	-5.1%
Town Center	\$35,160	-24.5%	\$ 28,823	-18.8%	\$ 16,467	8.6%	\$ 17,370	5.3%
Southlake	\$ 9,995	-78.5%	\$ 9,995	-71.9%	\$ 7,995	-47.3%	\$ 7,995	-51.5%
North Point	\$ 2,810	-94.0%	\$ 2,033	-94.3%	\$ 1,228	-91.9%	\$ 1,193	-92.8%

Excluding the highest, lowest, and our own rate, these four businesses would average 14% higher taxes in the remaining eight jurisdictions. As previously confirmed, we are well below our most visible two neighbors; Johns Creek and Sandy Springs.

While certainly the gross receipts portion of our tax collections is the highest, I feel it is logical to also visit the employee portion of the tax. The amount is tiered ranging from \$4 to \$14 per employee. My concern with this number is that it is not indexed to inflation or any other index. That means a business is paying the same employee tax that was paid a decade ago; even though the price of policing and infrastructure has compounded over those same years. With gross receipts, one would argue a business' revenues should gradually increase over time due to growth and inflation so there would be some built in increases for that portion. But the employee amount is static and only increases by hiring more people (that increase the burden on the roads and other services.) Over the past decade, the index for providing municipal services (Municipal Cost Index) rose a modest 34.9%. This would put the employee tax ranging from \$5.40 to \$18.89. Though the changes are small, it does allow the City to better match our revenues to our expenses. I would recommend increasing the employee fee and tying it to an index for future adjustments. The changes would be small each year to help offset the small increases in providing services.

The other employee tax item I would like Council to consider is the tiered structure of the tax. I'm not sure where the logic is in taxing the employees at a different amount. This is not a requirement of OCGA. Does one person driving on a road cause us to spend less or more on repairs just because of person's occupation? Does the manager of Kroger require a lower priced police officer to arrest a shoplifter than the manager of Macy's?

Clearly the argument is made to justify an increase based on the extensive research over the past year. The question is whether or not Council wishes to change the current rates.

RECOMMENDED ACTIONS

Council's direction is requested to the following questions. First, does the majority of Council support a change in the rate structure? Second, if a majority does support a change, what percentage does that majority support? Third, does the majority of Council support changing the employee tax? Fourth, should the employee tax be indexed? Fifth, should the employee tax portion be flat for all employers.

Based on Council's direction, a resolution to change the rates may be presented at the September City Council meeting.