

ALBANY CALIFORNIA



CITY OF ALBANY
1000 SAN PABLO AVENUE
ALBANY, CA 94706
www.AlbanyCA.org

Agenda Date: May 20, 2024

MEMORANDUM

To: Albany City Council Members

From: Councilmembers Jordan and Tiedemann

Re: Addendum to memo regarding a Supplemental Business License Special Tax to fund tenant and community services

BACKGROUND

Tax Structure

As mentioned in our prior memo, we favor a lower tax rate on gross revenue for owners renting fewer residences and a higher rate on the others. Berkeley and Richmond have instituted similar two-tiered tax rates dependent on the number of units owned and operated as rentals.

In response, since the Council's last meeting staff provided data from the City's current business license registrations showing the number of rental residences owned by each rental owner in Albany.

# of residences	# of owners	Total # of residences	# of residences	# of owners	Total # of residences
175	1	175	13	2	26
60	1	60	12	2	24
45	1	45	11	1	11
32	1	32	10	4	40
30	1	30	8	28	224
26	1	26	7	9	63
24	1	24	6	13	78
22	1	22	5	9	45
20	1	20	4	57	228
18	3	54	3	42	126
17	2	34	2	90	180
14	1	14	1	572	572

These data show that Albany’s rental units are relatively evenly spread between large and small owners, with 1,047 units owned by rental providers that own five residences or more in the City and 1,106 units owned by rental providers owning four residences. As these data are based on business licenses in the City of Albany, it does not account for residences also owned outside of the City, meaning the proportion of units operated by small landlords is likely somewhat smaller than indicated here.

The 2020 Census counted [3,831 tenant-occupied residences in Albany](#). Without the 974 in University Village that are not subject to taxes mentioned in the memo, there may be 2,857 rented residences subject to City taxation.

Rent Review

Established in 2018, at the request of the tenant or rental provider Albany’s Rent Review Program provides consultation, conciliation, and non-binding mediation regarding annual rent increases exceeding 5%. The [Program’s 2023 report](#) relays it was engaged 66 times. Of these, 34 concluded with counseling, 26 with review of the rent, four with conciliation, and two with mediation.

The Program is funded by a fee of \$15/year/rented residence, other than those in University Village. Given the number of rented residences otherwise known to the City indicated above, this generates funding of a bit more than \$30,000 per year.

DISCUSSION

Tax Structure

Dividing owners by the number of units owned and rented is advantageous mostly on the grounds of equity. Large property owners can be reasonably expected to pay a greater share of any tax as small owners have higher fixed costs relative to their gross income, and so operate at a smaller margin. An unplanned vacancy in one of their residences is also more financially consequential. The largest program proposed for funding under this measure is envisaged to insure against this consequence, which is most acute for owners of only a few residences, by reducing the chance that tenants move out or are evicted for inability to pay rent.

Given the goals articulated in the memo and this addendum, the table below presents possible tax rates for owners of less than 5 and more than 4 residences for rent in Albany, and the revenue that would result.

	#	Monthly gross revenue			Tax rate	Annual tax revenue		
		Low	Estimated	High		Low	Estimated	High
>4 known taxable residences	1047	\$2,292,136	\$2,452,382	\$2,612,627	1.7%	\$467,596	\$500,286	\$532,976
<5 known taxable residences	1106	\$2,421,302	\$2,590,577	\$2,759,853	0.6%	\$174,334	\$186,522	\$198,709

Known taxable residences	2153	\$6,254,665	\$6,691,934	\$7,129,203		\$641,930	\$686,807	\$731,685
Unknown taxable residences	704	\$1,541,226	\$1,648,975	\$1,756,724	0.6%	\$110,968	\$118,726	\$126,484
Taxable residences total	2857	\$6,189,682	\$6,622,408	\$7,055,134		\$752,898	\$805,534	\$858,169

The last row gives the estimated gross monthly revenue from taxable residences that are rented. This is calculated as share of all rented residences that are taxable (2,857) times the number of all such residences (3,831). The low value is this amount less the proportionate amount of the margin or error given by the ACS (\$580,250) and high estimate plus this proportionate amount. The [margin of error calculated by the ACS](#) covers the 90% confidence interval.

The top row gives the estimated gross revenue to owners of more than four residences rented in Albany as listed in the data provided by staff (“known residences”). This is calculated by dividing those owners’ total number of rental residences by the total number of rented residences subject to taxation times the low, best, and high estimates of gross revenue on the bottom row. The same is done in the second row regarding owners of fewer than five residences for rent.

A notional tax rate of 1.7% is applied on the gross revenue of owners of more than four rented residences and 0.6% to owners of fewer residences. Combined with the current business license tax, the total average rate would be just over 1% on gross revenue to owners of four and fewer rental residences and just over 2% on owners of more. The first would be slightly less than charged in Berkeley and Richmond and almost 0.4% less than charged by Oakland and Piedmont. The second would be about 0.8% less than charged by Berkeley and Richmond and 0.7% more than Oakland and Piedmont. The low, estimated, and high total estimated tax revenue resulting from these notional rates is given in the third row.

The City’s data on current business licenses for rental units indicates 2,153 rented residences. This is about three quarters of taxable rented residences according to the 2020 Census. The fourth row estimates the gross revenue received by owners of those residences and the notional tax revenue assuming their owners hold no more than four each.

With these assumptions, the estimated revenue from taxing the gross revenue from currently licensed rented residences would be \$690,000. If all rented residences identified by the Census data other than those in University Village were licensed, the estimated revenue would be \$810,000.

Rent Review

Since we authored the memo, the option of funding the Rent Review Program via the proposed tax measure instead of the current fee has come to our attention. We recommend doing so. This will provide additional spending flexibility, which allows for allocating resources to the greatest needs as they change with time. It also provides the possibility of the Program being more closely integrated with the proposed access to free legal counsel upon means testing. This access could be added to the end [Program’s flow chart](#). If so, funding the Program and legal counsel from the same source would simplify accounting.