



CITY OF PERRIS

CITY COUNCIL

AGENDA SUBMITTAL

MEETING DATE: March 14, 2023

SUBJECT: Proposed Industrial Warehouse/Distribution Facilities Business License Tax

REQUESTED ACTION: Discuss and Provide Direction to Staff on Proposed Industrial Warehouse/Distribution Business License Tax

CONTACT: Ernie Reyna, Deputy City Manager *ER*

BACKGROUND/DISCUSSION:

At the September 13, 2022, City Council meeting, the Council directed staff to bring back a discussion on potential revenue measures to help mitigate the cost of repairing and improving damaged roads and infrastructure in the city as a result of truck traffic generated by warehouses and distribution facilities. Staff prepared a presentation and at the November 29, 2022, City Council meeting, the Council received information related to a potential tax revenue measure to fund road repairs through either a business license tax or property tax for industrial warehouse/distribution uses. After discussion, the City Council directed staff to move forward with a business license and complete a study to analyze the appropriate tax rate to maintain the City's roadways, including truck routes and collector/arterial streets. Since then, staff has been working with Willdan Financial Services to determine the appropriate business license tax.

Currently, the City of Perris charges \$100 per business license (Ordinance Number 1037), and an additional \$4 fee for SB 1186, which is to be paid by any applicant for a local business license, permit, or similar instrument when it is issued or renewed. The purpose of the SB 1186 fee is to increase disability access and compliance with construction-related accessibility requirements and to develop educational resources for business to facilitate compliance with federal and state disability laws, as specified. The SB1186 fee is in addition to the regular business license fee.

TARGET REVENUE FOR ROAD REPAIRS

The City of Perris currently has approximately 23.5 million square feet of industrial development. Attachment 1 shows a list of the existing warehouses. Also, there are approximately 3.7 million square feet currently under construction (attachment 3), and 7.8 million square feet that have been approved but not started construction (attachment 2). It has been determined that the street system is already showing wear and tear and will need ongoing maintenance. This is due to the use of semi-trucks utilized for these types of operations which has a far greater impact on the roadway system than conventional automobiles. With the additional industrial development under construction and in the pipeline, it is anticipated that additional funding will be needed to fully

cover roadway repair maintenance. Each year, the City adopts a five-year Capital Improvement Plan (CIP) that seeks to address some of these issues, but there remains a shortage of funds to improve the streets and local infrastructure.

The table below details the estimated cost of repairs to the city streets over a 30-year period and annually. The information was provided by the City Engineer and as indicated in the table, the City will need to raise approximately \$120,579,463 over a period of 30 years, which includes the \$25,527,517 for truck routes and \$95,051,943 for collector / arterial streets. The annual necessary revenue is approximately \$ 4 million.

Years	Rehab Cycle	Truck Routes	Collectors / Arterials	Both
4	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
8	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
12	Grind & Overlay	\$9,846,328	\$36,662,894	\$46,509,222
16	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
20	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
24	Grind & Overlay	\$9,846,328	\$36,662,894	\$46,509,222
28	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
30	Remove and Replace	<u>\$33,772,905</u>	<u>\$125,753,725</u>	<u>\$159,526,630</u>
Total without R&R		\$25,527,517	\$95,051,946	\$120,579,463
Annual		\$850,917	\$3,168,398	\$4,019,315

BUSINESS LICENSE TAX

Staff is recommending that the business license tax apply to industrial warehouse/distribution facilities as defined as follows: Business or corporation conducting or managing a business consisting primarily of receiving, temporarily storing, and subsequently distributing goods, wares or merchandise of any kind to wholesalers or retailers.

In order to reach the target revenue of approximately \$4 million, a tax rate of \$.1705 per square foot would be needed to be collected from all of the existing buildings, totaling 23,569,330 square feet, as shown in attachment 1. This business license tax was calculated by applying the tax to all existing warehousing/distribution businesses listed on attachment 1, in which building sizes range from 45,380 square feet up to 1.7 million square feet.

If the industrial developments were to pay this tax on an annual basis, the City of Perris would raise enough money each year to fund the necessary amounts needed for street repairs. Based on the amount of revenue needed for the necessary road repairs, a business license tax of \$.1705 per square foot would be required for all existing warehouses, regardless of size. However, other options can be examined, including whether to apply the tax only to those warehouses, 500,000 square feet or greater, 250,000 square feet or greater, 100,000 square feet or greater, or 50,000

square feet or greater. The following table depicts the recommended business license tax for the varying building sizes in order to reach annual revenues of \$4,019,315 for necessary road repairs.

Building Size	Tax Rate	Total Building SF Citywide	# of Buildings
All sizes	\$.1705/sf	23,569,330 sf	38
50,000 sf or larger (recommended)	\$.1709/sf	23,523,950 sf	37
100,000 sf or larger	\$.1722/sf	23,341,663 sf	36
250,000 sf or larger	\$.1809/sf	22,218,171 sf	29
500,000 sf or larger	\$.2136/sf	18,820,584 sf	20
1 million sf or larger	\$.3271/sf	12,286,831 sf	11

The tax rate options above would be the maximum rates approved by the voters. The City Council could determine to change the tax amount so long as it does not exceed the maximum approved by the voters.

The table below shows an example of the annual tax payment for varying size buildings:

Building Size	Tax Rate	Annual Tax Payment
50,000 sf	\$.1705/sf	\$8,545/year
100,000 sf	\$.1722/sf	\$17,220/year
250,000 sf	\$.1809/sf	\$45,225/year
500,000 sf	\$.2136/sf	\$106,800/year
1 million sf	\$.3271/sf	\$327,100/year

TIMELINE

Staff has verified with the Riverside County Office of Registrars that this tax measure can be placed on the ballot as a special election on November 7, 2023. This type of tax measure is considered a special tax and would require 2/3 approval from the voters to be effective in the city and cannot be commingled with general fund monies.

The next step is to have the City Council give staff direction to move forward with the business tax revenue measure and provide staff with the preferred building size square footage in which the tax would apply. Staff will then bring back the necessary resolutions at a future meeting so that the City Council can approve the resolutions to place the measure on the ballot at a special election to be held on November 7, 2023. The City Council would need to make this decision by the July 25, 2023, City Council meeting so all the necessary documentation can be forwarded to the Riverside County Registrar of Voters office by August 11, 2023. Because this is a special tax, a majority vote of the City Council is required to place the measure on the ballot, and 2/3 of the voters would be required to approve by ballot for the measure to be effective.

COSTS

For this proposed revenue tax measure to be placed on the November special election, the County of Riverside has estimated the cost to be approximately \$105,000. Staff will also seek out the assistance of a public relations firm to advocate and support the revenue tax measure and help to educate the public on how the tax will be applicable to warehouses only to raise the necessary funds needed to help repair the infrastructure surrounding those areas. The estimated cost of the public relations firm will be around \$45,000, so the total estimated cost of the revenue tax measure is \$150,000.

STAFF RECOMMENDATION

Based upon the options presented above, staff is recommending that the Council select the option of warehouses with a square footage of 50,000 square feet and above, including a definition of warehouses as mentioned in the report. Based on the list of existing warehousing The below chart diagrams the four options including what the tax rate will be, the total square feet of all warehouses in that option, and the number of buildings that fall under the respective tier. At the 50,000 square feet option, that tax rate would equate to .1709, including 23,523,950 total square feet of buildings, and 37 existing buildings over 50,000 sq.ft.

BUDGET (or FISCAL) IMPACT: The cost of the special election plus outreach using a public relations firm will be approximately \$150,000 and would be paid out of the general fund.

Prepared by:

Ernie Reyna, Deputy City Manager

REVIEWED BY:

City Attorney _____
Assistant City Manager WB
Deputy City Manager ER

Attachments:

1. Existing Industrial Warehouses
2. Approved Warehouse Buildings (Not Under Construction)
3. Warehouses Under Construction
4. Memo from Willdan Dated March 7, 2023
5. Truck Routes and Collector/Arterial Streets Exhibit

Consent:

Public Hearing:

Business Item: X

Presentation:

Other:

ATTACHMENT 1

EXISTING INDUSTRIAL WAREHOUSES

Existing Industrial Warehouses			
Address	DBA (Google)	Total Lot Acreage	Building sqft.
North			
3722 N. Redlands Ave.	Whirlpool	83.52	1,704,127
4120 Indian Ave.	General Mills Operation	83.15	1,545,390
350 W. Markham St.	Home Depot Distribution	80.02	1,364,551
3404 Indian Ave.	Ross Distribution Center	83.28	1,345,103
3700 Indian Ave.	Hanesbrands, Inc.	57.79	1,319,017
3300 Indian Ave.	Wayfair, Inc.	59.05	1,226,658
3984 Indian Ave.	Lowes Distribution Center	107.48	1,225,387
728 W RIDER ST	Duke Realty Webster Rider LP	55.26	1,200,000
4120 N. Webster Ave.	Ferguson Plumbing Supply	32.37	1,044,592
4375 N. Perris Blvd.	Amazon Fulfillment Center LGB9	46.76	1,016,030
4565 Redlands Ave.	The Home Depot Distribution Center	67.45	1,000,103
4413 Patterson Ave.	XPO Logistics	41.82	912,338
657 W. Nance St.	National Distribution Centers LP	43.64	864,000
4150 Patterson Ave.	Amazon KR84	37.43	800,218
3500 Indian Ave.	Wayfair, Inc.	36.72	783,407
4378 N. Perris Blvd.	Ross	35.84	698,274
233 W. Markham Str.	DMSI Warehouse & Forever 21	30.75	656,695
3350 Redlands Ave.	Sketchers	30	640,000
4555 Redlands Ave.	Essendant - Perris Distribution Center	24.92	599,113
3900 Indian Ave.	Kenco	28.11	579,708
290 E. Markham St.	Tech Style Fashion	24.26	474,000
375 E. Markham St.	GEODIS	11.2	456,652
4130 Indian Ave.	Grainger Warehouse	16.85	428,730
4160 Patterson Ave.	Ryder E-Commerce Fulfillment Node	21.49	406,650
1301 Harley Knox Blvd.	KenCo	23.13	396,845
251 E. Rider St	IDC Logistics	16.29	341,492
400 Harley Knox Blvd.	National Retail Transport (NRT)	13.2	339,519
3125 Wilson Ave.	Newage Products Logisitics California	15.6	302,333
1330 Nandina Ave.	PODS Storage	25.4	251,366
353 Perry St.	Moret Group Distribution	11.15	240,247
4564 Redlands Ave.	Peloton	11.17	210,900
380 W. Markham St	Restrospec	9.12	191,920
24455 W NANCE ST	Yakima	9.12	187,780
501 Harley Knox Blvd.	Berry Direct & Utopia Distribution	9.09	172,645
278 E. Markham St.	Penske Logistics	6.85	120,000
5100 Western Wy.	Custom Molded Products LLC	4.74	100,140
212 E MARKHAM ST	Global Warehouse/ Lecang LLC	4.2	82,147
19401 Brennan Ave.	StarCrest Products of California	14.06	45,380
Total Acreage		1312.28	23,569,330

ATTACHMENT 2

APPROVED DISTRIBUTION CENTERS (not in
construction)

ATTACHMENT 3

WAREHOUSES UNDER CONSTRUCTION

Warehouses Under Construction

Address	APN (GovClarity)	Total Lot Acreage	Building sqft.	Owner Name (GovClarity)	Activity
North					
SW corner of Mapes & Goetz	330-120-002, 330-120-003, 330-120-008, 330-120-009, 330-120-010, 330-120-011		1,398,461	IDI - Site 2	
NE corner of Redland & Ellis	310-170-006, 007, 008, 310-220-050 and 330-090-027	50	1,020,657	IDI - Site 1	Plan Check Approved - Bid 1
NE corner of Redland & Ellis	310-170-006, 007, 008, 310-220-050 and 330-090-027	56.2	1,020,657	IDI - Site 1	Plan Check Approved - Bid 2
SW corner of Mountain & Goetz		36	784,000	IDI - Site 3	
SW corner of Mapes & Goetz			770,091	IDI - Site 2	
SW corner of Mapes & Goetz			693,369	IDI - Site 2	
SW corner of Mapes & Goetz			616,358	IDI - Site 2	
SW of Perris & Morgan		15	286,000	Patriot Partners	
NE corner of Markham & Webster		10	273,000	Integra	
NE of Ramona and Indian		13	232,000	McKay Indus	
SW Ramona & Brennan		7.58	165,000	Seefried Indus	
25264 E. Nance St, S. of Harley Knox, E of Las Palmas		6.4	156,000	Nance Ind	
NW Harley Knox & Redlands		8.1	154,250	First Harley Knox Ind	
SW corner of Redlands and Rider		6	141,000	Chartwell Ind	
SE Corner of Indian & Harley Knox		9	138,000	Kwaizur Ind	
		217.28	7,848,843	Total Bid SF	

ATTACHMENT 4

MEMO FROM WILLDAN 030723

Memorandum

To: City of Perris
From: James Edison and Carlos Villarreal, Willdan Financial Services
Date: March 7, 2023
Re: **Revenue Analysis**

The City of Perris engaged Willdan Financial Services to provide an analysis of potential revenue from the implementation of a supplemental business license tax on warehouse/distribution businesses. Business license taxes are imposed on businesses operating in the City, again as a flat amount per business or some other attribute such as the square footage of the premises of the business.

Table 1 summarizes the results of this analysis which will be further explained below.

Table 1
Summary of Results
Perris Road Maintenance Funding Analysis

Type	Rate (1)	Est. Annual Revenue	Est. Future Annual Revenue (2)
Business License Tax	\$0.1705	\$4,019,315	\$5,849,880

(1) Rate is per existing square foot of land for building for business license

(2) Including entitled and under construction projects. NA to parcel tax.

Willdan, 2023

Road Maintenance Costs

The City of Perris has experienced significantly increased truck traffic related to the development of industrial space in the City, especially uses such as warehouses and distribution centers that generate large number of truck trips. This in turn has resulted in increased road maintenance costs for the City. The City of Perris Public Works Department has prepared an estimate of life cycle maintenance costs of roads associated with the truck traffic in the City. As shown in Table 2, the truck routes alone cost a total of \$25.5 million, or \$850,000 annually, and the truck routes and collectors combined cost a total of \$120.6 million, or \$4.0 million annually.

Table 2
Road Maintenance Costs
Perris Road Maintenance Funding Analysis

Years	Rehab Cycle	Truck Routes	Collectors / Arterials	Both
4	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
8	Slurry Seal	\$1,166,972	\$4,345,232	\$5,512,204
12	Grind & Overlay	\$9,846,328	\$36,662,894	\$46,509,222
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30	Remove and Replace	<u>\$33,772,905</u>	<u>\$125,753,725</u>	<u>\$159,526,630</u>
Total without R&R		\$25,527,517	\$95,051,946	\$120,579,463
Annual		\$850,917	\$3,168,398	\$4,019,315

City of Perris staff and Willdan used a GIS database to identify the parcels zoned as industrial land in the City. Based on this analysis the City and Willdan estimate that there are approximately 723 parcels totaling 162 million square feet of land area (or 3,719 acres) in the City. The City has also tracked major industrial projects in the City in past decades to identify industrial projects in the last twenty years to estimate the square footage of buildings that would be subject to a business license tax.

This analysis has a number of limitations. Not included in this analysis is an examination of what development is actually on the parcels zoned industrial, for example, and the projects used to estimate the business license tax are not an exhaustive list of projects that would be subject to the tax. The calculations in this analysis are an estimate of future revenue, and the City and Willdan believe that they are approximately correct but not exactly.

In the event that the City decides to proceed with the business license tax, City staff will continue to refine the analysis to determine exactly what businesses apply. The City must define which parcels are subject to the tax. For example, the tax may be levied on all industrial zoned parcels, or only those zoned for warehouse/distribution uses.

Table 3 details the results of this analysis. As shown on Table 3, Willdan and the City have identified 162 million square feet of industrial parcels and 26 million square feet of existing industrial development. It is important to note, as described above, that these figures are estimates but appear to be roughly correct. For the business license tax, Table 3 also includes a calculation of the total of both completed and entitled projects, totaling approximately 37 million square feet of building area.

Table 3
Industrial Square Footage
Perris Road Maintenance Funding Analysis

Category	Land SF	Building SF
Completed Projects (1)	NA	23,569,330
Completed and Entitled Projects	NA	35,116,751
Zoned Industrial Parcels	162,007,162	NA

(1) Includes projects between 2,000 and 2 million sf.
Source: City of Perris

Willdan 2023

Tax Calculation

Based on the development estimates above, Willdan calculated the tax rates that would be sufficient to fund the annual road maintenance costs detailed in Table 2. Table 4 details the results of this analysis.

Table 4
Business License Tax Revenue Calculation
Perris Road Maintenance Funding Analysis

Tax Type	Target Revenue	SF (1)	Rate
Business Lic Tax			
Truck Routes/Collectors	\$4,019,315	23,569,330	\$0.1705

(1) Building SF for license, land SF for parcel tax.

Source: City of Perris

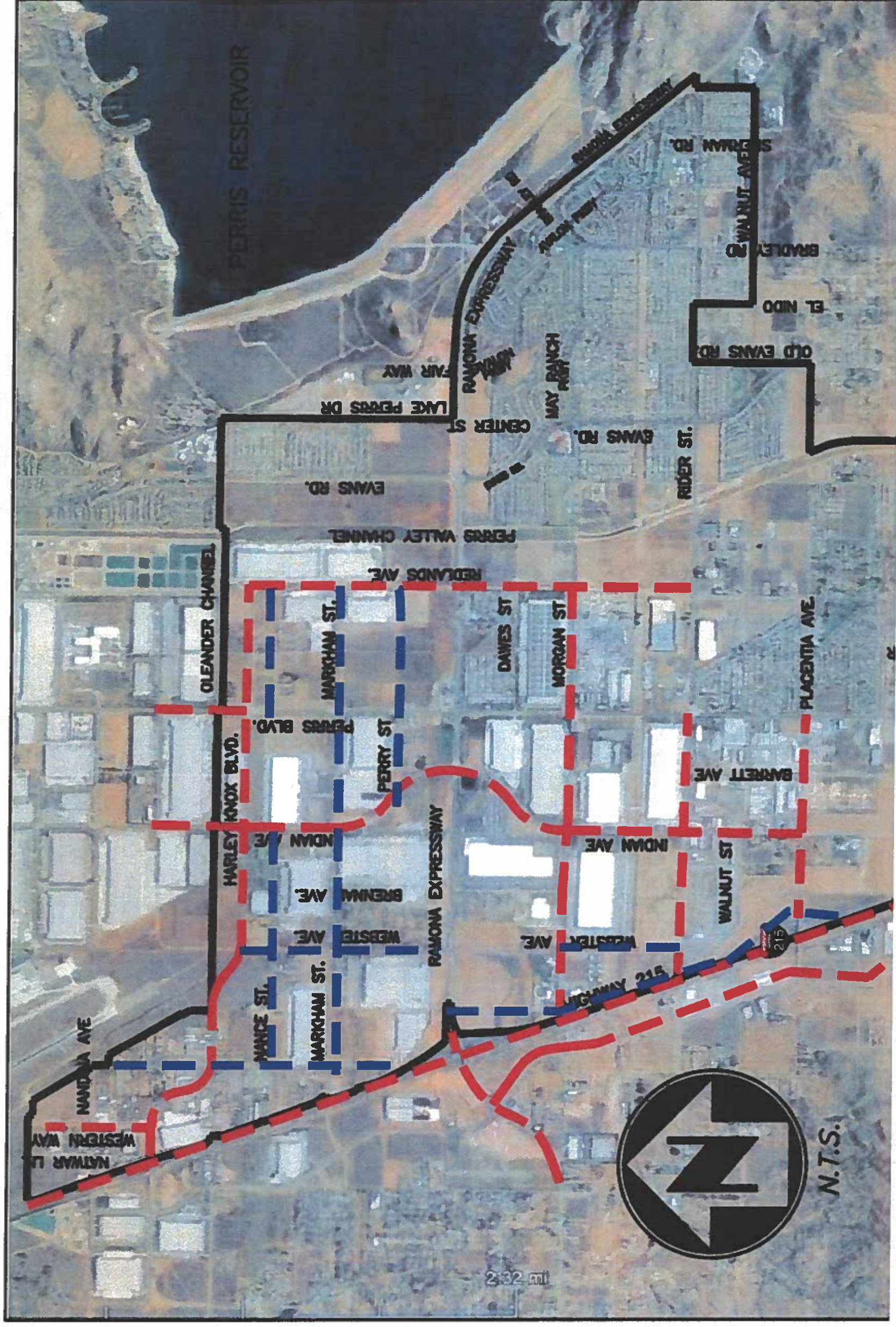
Willdan 2023

As an illustrative example, a 300,000 square foot industrial building with a typical FAR of .5 (so 600,000 square foot lot, or approximately 14 acres) would pay a parcel tax of \$14,900 annually at the tax rate indicated in Table 4, or a business license tax of \$51,159 annually. These figures are meant as an illustrative range of taxes that could be adopted and are not necessary for the establishment of the tax, which requires an election as discussed elsewhere.

ATTACHMENT 5

**TRUCK ROUTES INCLUDING
COLLECTORS EXHIBIT**

CITY OF PERRIS TRUCK ROUTES



LEGEND:

- PERRIS CITY LIMITS
- TRUCK ROUTES
- COLLECTORS