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2004 Madera County Grand Jury
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**2004 Madera County Grand Jury
Final Report On
The City of Madera Finance Department
As Regards Business Licenses for Rental Properties**

INTRODUCTION

Members of the 2004 Madera County Grand Jury went to the Finance Department of the City of Madera pursuant to Code 925(a) charging the Grand Jury to "investigate and report upon the fiscal matters of any such city or joint powers agency." The Grand Jury met with the Finance Director on June 15, 2004 to learn about the collection of business license fees for rental properties.

FINDINGS

The Rental Business License Fee Ordinance is found in City of Madera Municipal Code §6-1.28 RENTAL PROPERTIES, "Every person conducting or maintaining real property in the city for rental as a dwelling unit, whether as a single-family, two family, or multi-family residential unit, except the Housing Authority of the city and owners of motels and hotels, which are taxed pursuant to the provisions of Chapter 3 of Title 8 of this code, shall pay an annual license tax based upon the average monthly gross receipts for such rental units in accordance with the schedule set forth in § 6-1.22 of this chapter. Applications for issuance of a business license for residential income properties shall be submitted to the Director of Finance together with a fee of \$ [according to a set schedule] as set by Council Resolution no later than June 17, 1994 or within one calendar year of commencement of the use of the property as rental income property, either as a new use or as a change of use."

The Business License fee for rental properties is collected on a sliding scale. Owners whose rental income is under \$500.00 a month pay \$20.00/year. Owners receiving between \$500.00 and \$1,000.00 pay \$28.00, and so on. An owner would have to be receiving more than \$6,000.00 a month, for all rental properties, to pay over \$100.00/year.

The Finance Director stated that the City of Madera collects about \$36,000 a year from Rental Business License Fees. The Grand Jury was concerned about the possibility that quite a few rental property owners might be unaware of this fee. When asked how the public was notified, the Finance Director said that the information was posted in the Public Notices section of the newspapers in the County. The Grand Jury asked if people were informed about this issue when they ordered water and sewer services for a new property. The Finance Director said that an effort had been made to keep clerks aware of this and to have them inform the public at such times, but a large turnover in staff has made it very difficult to be consistent.

In general, the Finance Director expressed concern about budget cuts that have resulted in personnel cuts for his department. He said that it is very difficult to cover all the finance responsibilities with the existing staff.

The Madera County Grand Jury in late August requested documentation from the Finance Department in order to attempt to determine how large a problem there might be with regard to the failure of the Finance Department to collect rental property business license fees. The Grand Jury asked for a list of all properties where the service address was different from the mailing address for billing of water and sewer fees. The Grand Jury also asked for

a list of all rental properties on which Business License Rental Fees are being paid.

CONCLUSION

The letter that accompanied the materials, that were received based on the documentation previously requested by the Madera County Grand Jury, informed the Grand Jury about a new program that should help in solving the problem of finding rental properties and collecting the revenues for the rental business license fee. The letter mentioned the Local Government Sharing Program (AB63). This program allows any city in the State of California to request a listing of any resident filing a tax return as a resident of that city that contains a Schedule C. This information will be cross-referenced with the business license database. Individuals not licensed by the City of Madera will receive a notice of violation and have a specified amount of time to correct the violation or prove that they do not do business within the City Limits. This allows the City of Madera to be sure that they are collecting Business License fees for all City of Madera businesses that also California State tax forms. The City of Madera signed a sharing agreement with the Franchise Tax Board, under AB63, on May 20, 2004. The City of Madera is to receive its first disc in January 2005.

Finally, in December of 2004, another cross-reference is scheduled with the County of Madera database, which will cover rental business licenses. The last cross-reference using the County property tax database was done in January 2003. The Finance Director did not mention this during our June meeting.

The Madera County Grand Jury commends the City of Madera for initiating the use of recent technology in solving revenue collection problems.

RECOMMENDATIONS

1. In the belief that it is always better to inform new owners about the Rental Business License Fee when they first acquire the property rather than to locate them after they have become delinquent, the Grand Jury suggests that every person who comes into the City to turn on utilities be given a notice that if the property is to be a rental property, such fees must be paid.
2. Clerks must advise people who ask to have billing sent to an address other than the service address, that a Business License and payment of a Rental Business License Fee might be required.

RESPONSES REQUIRED

1. City of Madera Finance Department
2. City of Madera City Council

RESPONSE NOT REQUIRED BUT ALLOWED

1. Madera County Board of Supervisors