

Model BL System

- MASC model BL system classifies businesses based NAICS codes and IRS Profitability Statistics
- NAICS is the North American Industrial Classification System
- IRS requires NAICS code on all business income tax returns



Model BL System

- IRS uses NAICS codes and income tax data to created a profitability index
- IRS profitability index runs 3 years behind tax year
- Latest available IRS profitability index 2012 used on 2015 class schedule



Model BL System

- MASC sorts index in ascending order by profitability
- Sorted list divided into 7 equal increments or classes
 - Class 1 - least profitable business classes
 - Class 7 - most profitable business classes



Model BL System

- Class 8 – a special rate class made up of businesses subject to:
 - State law requirements or limitations, or
 - Create higher service demands
- BL model deemed a fair and rational method by the SC Supreme Court on 2 separate occasions



Model BL System

- Model Ordinance
 - Includes 3 parts
 - Ordinance (Defines rules and process)
 - Rate Schedule – Appendix A (Set by each City Council)
 - Class Schedule – Appendix B and C (Set by MASC using IRS data and profitability index)



Model BL System

SAMPLE RATE SCHEDULE

RATE CLASS	INCOME: \$0 - \$2,000		INCOME OVER \$2,000
	MINIMUM TAX	Rate per Thousand or fraction	
1	\$ 10.00		\$0.50
2	\$ 20.00		\$0.65
3	\$ 30.00		\$0.80
4	\$ 40.00		\$0.95
5	\$ 50.00		\$1.10
6	\$ 60.00		\$1.25
7	\$70.00		\$1.40



Maintaining Model BL System

- SC Self Storage case, a 2012 SC Supreme Court decision, - rate classes must be updated periodically based on revised profitability statistics
- Association recommends every 3 - 5 years
- New Class Schedule – Appendix B and C prepared annually Association



Updating Model BL System

- Update process
 - Most recent Class Schedule (Appendix B and C) used to reclassify businesses based on profitability
 - Business profitability changes over time
 - Profitability changes may shift businesses to new rate classes
 - Shifts in classes
 - Change BL rate charged to businesses
 - impact BL revenue collection



Updating Model BL System

- Excel model used to update to new appendices
- City provides a current copy of
 - Business license ordinance with
 - Rate schedule
 - Declining scale
 - Business license data including:
 - BL account number
 - Name of business



Updating Model BL System

- Business license data (continued)
 - Assigned NAICS code
 - Current BL class assigned to business
 - Gross receipts (last completed BL year)
 - In city/out of city location designation
 - Amount paid in business license fee (excluding penalties)



Updating Model BL System

- Steps in MASC update process
 1. Check data integrity
 - Set model to city's BL rates and class codes
 - Revenue should be virtually identical to prior year collections
 - If results are off – trouble shoot data
 2. Update classification of business based on new appendix B & C



Updating Model BL System

3. Evaluate impact of business class changes
 - Calculate number of business class changes
 - Look at amount of gross revenue movement between classes
 - Evaluate winners and losers
 - Determine extent of revenue impact
4. Model rate scenarios. Options include changes to:
 - Base rate
 - Rate per \$1,000 gross
 - Declining scale



Updating Model BL System

5. Goal of rate modeling
 - Identify any unusual local issues that need to be addressed
 - Achieve a revenue neutral result for city (similar to property tax reassessment)
 - Negatively impact as few businesses as possible
6. Share preliminary results with city
7. Make necessary adjustments
8. Report findings and recommendations to city council

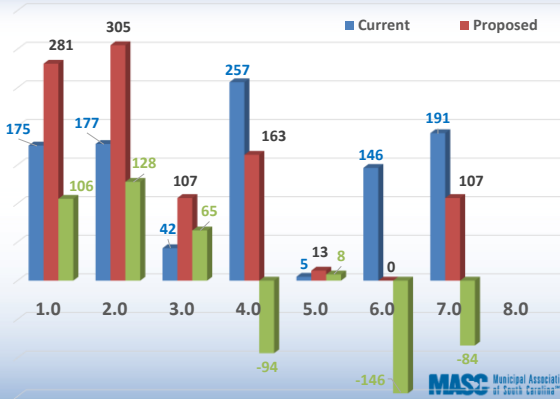


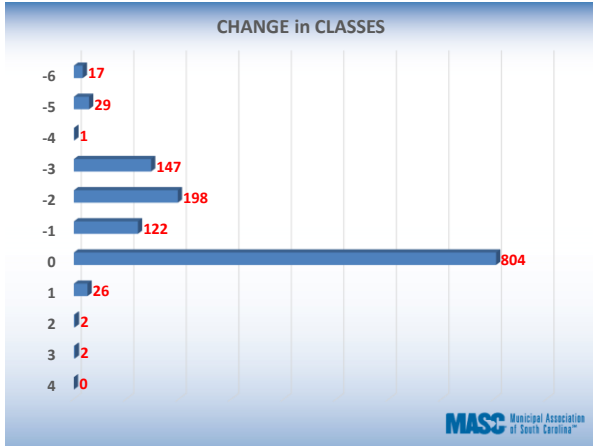
Model BL System Update Trends

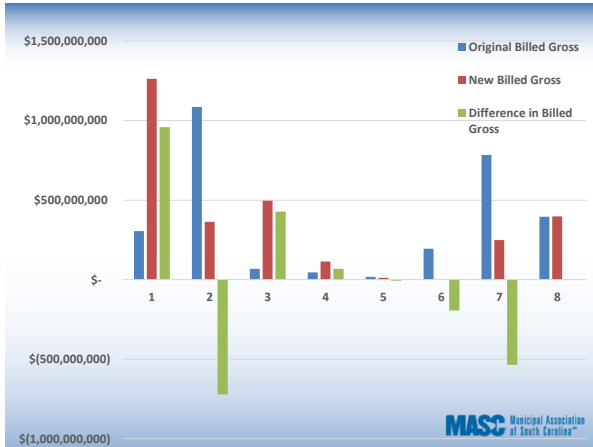
- Significant downward movement from classes 6 and 7 to lower classes
- Biggest changes
 - Doctors from 6 to 3
 - Hospitals from 7 to 3
 - Nursing homes from 6 to 1
 - Big box retail 2 to 1



PROPOSED CHANGE IN CLASSIFICATION COUNTS







Model BL System Update Trends

Class	Base	Inside Rate per \$1,000	Outside Rate per \$1,000	current	proposed	difference	% change	total count	Declining scale
	20.00	1.70	1.55	0.15					Step 1: 99%
0	0	0	0	0	0	0	0.0%	0	Step 2: 98%
1	30.00	1.70	3.40	306,940.25	1,737,659.39	1,330,719.14	349.2%	746	Step 3: 85%
2	30.00	1.80	3.60	1,345,492.74	747,364.83	(598,127.91)	-44.5%	852	Step 4: 75%
3	40.00	1.90	3.80	129,459.48	623,405.23	493,945.75	381.5%	307	Step 5: 65%
4	50.00	2.00	4.00	110,518.62	210,335.70	99,817.08	90.3%	435	Step 6: 55%
5	60.00	2.10	4.20	40,444.95	34,463.34	(5,981.61)	-14.7%	69	Step 7: 45%
6	70.00	2.20	4.40	594,565.14	-	(594,565.14)	-100.0%	0	Step 8: 35%
7	80.00	2.30	4.60	1,179,692.42	321,354.87	(858,337.55)	-72.8%	199	Step 9: 25%
									Step 10: 15%
									Step 11: 5%
									Step 12: 0%
	Sub Total		\$	3,787,680.60	3,674,765.41	(112,915.19)	-2.98%	2917	

MASC Municipal Association of South Carolina™

Model BL System Update Trends

Impact Summary	# of Licenses	% of Total	Decrease	% with Decrease	Increase	% with Increase
> 3000	268	6.0%	261	75%	7	2.5%
> 3000	216	5.3%				
> 5000	99	2.6%				

Class	Masters	Licenses	Proposed Total Licenses	Total Licenses	change
Cc41	87	87	87	87	0
2	55	53	88	46	42
3	304	50	85	90	21
4	200	2	2	2	207
5	69	0	0	2	425
6	0	0	0	0	69
7	0	0	0	0	0
8 00	0	0	0	0	0
8 01	216	438	32	4	196
8 20	0	0	0	4	855
8 21	0	0	0	0	69
8 30	1	0	0	0	0
8 40	0	0	0	0	0
8 41	4	0	0	0	0
8 42	4	0	0	2	4
8 50	6	5	5	5	13
8 60	0	0	0	0	0
8 61	0	0	0	0	76
8 62	0	0	0	0	0
8 70	0	0	0	0	0
8 80	1	0	0	0	0
8 81	0	0	0	0	5
8 82	0	0	0	0	15
8 83	0	0	0	0	6
8 90	0	0	0	0	0
8 91	1	0	0	0	1
8 92	62	0	0	0	64
8 93	0	0	0	0	1
8 0	0	1	1	1	2
	2661	875	216	208	99
					3536
					3536
					0



Update Trends

- Demonstrate the model