



CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

August 5, 2019

The Honorable City Council
Palo Alto, California

Policy and Services Recommends the City Council Accept the Business Registry Audit

The Office of the City Auditor recommends acceptance of the Business Registry Audit. At its meeting on September 11, 2018, the Policy and Services Committee approved and unanimously recommended that the City Council accept the report. Additionally, the Policy and Services Committee directed the City Auditor to conduct additional analysis to gain a better understanding of the audited data. The memorandum attached to this audit provides the requested information.

[The City Auditor's report to the Policy and Services Committee](#) and the [transcript minutes](#) are available on the City's [Policy and Services Committee website](#).

Respectfully submitted,

Don Rhoads, CPA
Special Advisor to the Office of the City Auditor
Management Partners

ATTACHMENTS:

- Attachment A: Business Registry Audit (PDF)
- Attachment B: Business Registry Post Audit Memorandum (PDF)

Department Head: Don Rhoads, Special Advisor to the Office of the City Auditor



Business Registry Audit

August 28, 2018



Office of the City Auditor

Harriet Richardson, City Auditor

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OFFICE OF THE CITY AUDITOR

EXECUTIVE SUMMARY

Business Registry Audit

August 28, 2018

PURPOSE OF THE AUDIT

The purpose of this audit was to assess the City's business registry rules, processes, and data and provide recommendations to improve and maintain data quality.

CONCLUSION

The City's business registry data was not reliable. Data that MuniServices LLC started collecting under contract with the City in 2018 should be more reliable, but there is opportunity for further improvement.

REPORT HIGHLIGHTS

Finding: (Page 4)

Some of the City's business registry data from 2015 to 2017 was inaccurate, incomplete, and inconsistent, and the registry data showed business trends that were inconsistent with comparable economic data. Although the City staff planned to collect complete, accurate, and useful data, it did not have a process to validate the accuracy and completeness of the registry data it collected and the self-reporting nature of the program made it difficult to validate the data. MuniServices' processes to administer the City's registry should result in more reliable data starting in 2018, but there are opportunities to improve the quality of the data even more.

Key Recommendations:

- Review and modify the questions, as necessary, that the City asks businesses to self-report and identify the type and sources of other data that can improve the accuracy of data collected.
- Develop a broader strategy to improve the reliability of the business registry and supplement data that businesses self-report by exploring and assessing the cost versus benefit of options such as obtaining data that is available from external reliable sources, providing to MuniServices other business data that the City has available, and conducting in-person observations of businesses to physically identify where businesses are located.
- Update the Development Services Department's business registry administrative manual to reflect Development Services' new project management and contract administrator roles and responsibilities.

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ABBREVIATIONS

BID	Business Improvement District
LLC	Limited Liability Company
NAICS	North American Industry Classification System
PAMC	Palo Alto Municipal Code
SUSB	U.S. Census Bureau’s Statistics of U.S. businesses

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INTRODUCTION

Objective

The purpose of this audit was to assess the City's business registry rules, processes, and data and provide recommendations to improve and maintain data quality.

Background

In 2014, City Council directed staff to quickly plan a business registry program with the following specifications:

- Online, simple to use, and integrated with the City's existing permit management system (Accela) technology.
- Include useful information for planning purposes (e.g., number of employees, business type) on City businesses that occupy commercial spaces.
- Cost recovery in nature (i.e., not meant to generate additional revenue for the City).
- Include plans for outreach, marketing, and enforcement.
- Ready to launch by December 31, 2014.

The City launched the business registry program in March 2015, and the City Council has since continued to provide specific direction on program management to:

- Enhance and refine the business registry online system and questionnaire.
- Exempt small businesses, small nonprofits, and religious organizations.
- Explore mechanisms for ensuring compliance.
- Obtain a third-party database as a point of comparison for the registry.

The Development Services Department (Development Services) administers the City's business registry in accordance with Palo Alto Municipal Code (Municipal Code) Chapter 4.60, which requires every person who conducts any business in a fixed place in Palo Alto to complete an application and pay a fee to obtain a business registration certificate annually. Starting in 2015, the City required Palo Alto businesses, with some exemptions, to provide information about their businesses based on Council-approved questions.¹ Development Services administered the

¹Small businesses and nonprofits with less than one employee on site, religious organizations, home-based businesses, and transitory businesses are exempt from the business registration process.

business registry from 2015 to 2017. It collected and stored business registry surveys electronically in its database to provide information for managing land use, transportation, and zoning.

In January 2018, the City entered into a two-year, \$85,000 agreement with MuniServices LLC to administer the City's business registry program. Development Services staff who administered the business registry now manage the contract and serve as a liaison between the City and MuniServices.

Scope

We reviewed the City's business registry administration process and data from 2015 through 2017. Because the City transitioned administration of its business registry to MuniServices in 2018, we could not assess registration data for 2018, which MuniServices was in process of gathering as we conducted the audit.

Methodology

To accomplish our objective, we:

- Identified and reviewed applicable regulations, policies, and procedures, including PAMC Chapter 4.60 and the Business Registry Administrative Manual.
- Interviewed Development Services staff to understand the processes used to administer the business registry from 2015 to 2017.
- Reviewed the City's contract with MuniServices and interviewed MuniServices staff to understand how MuniServices plans to administer the City's business registry starting in 2018.
- Compared the City's business registry data with U.S. Census Bureau business registration data for Palo Alto and Santa Clara County.
- Assessed the completeness and consistency of existing business registry data that the City collected from 2015 to 2017.

Data reliability

Our audit objective included assessing the reliability of the business registry data (see Objective, Scope, and Methodology sections above). Because this was the focus of our audit, we addressed our conclusions regarding the reliability of business registry data in our audit finding. Because the U.S. Census Bureau

is commonly accepted as a reliable source of data, we did not assess the reliability of its business registration data

***Compliance with government
auditing standards***

We conducted this business registry audit in accordance with our FY 2018 Annual Audit Work Plan and generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We would like to thank management and staff in the Development Services Department for their time, cooperation, and assistance during the audit process.

Finding

The City's business registry data was not reliable. Data that MuniServices LLC started collecting under contract with the City in 2018 should be more reliable, but there is opportunity for further improvement.

Summary

Some of the City's business registry data from 2015 to 2017 was inaccurate, incomplete, and inconsistent, and the registry data showed business trends that were inconsistent with comparable economic data. Although City staff planned to collect complete, accurate, and useful data, it did not have a process to validate the accuracy and completeness of the registry data it collected and the self-reporting nature of the program made it difficult to validate the data. MuniServices' processes to administer the City's registry should result in more reliable data starting in 2018, but there are opportunities to improve the quality of the data even more.

Duplicate, inconsistent, and incomplete data

The City's 2015 to 2017 business registry data contained numerous duplicate, inconsistent, or incomplete records, which limit the usefulness of the data and could cause incorrect conclusions about year-over-year business trends. For example:

- The registry included three fictional business records named "Test Complete Application" that were entered in 2016, each showing 618 employees, 739 leased parking spaces, and 860 provided parking spaces. The registry also included duplicate records for some registered businesses. Development Services staff cannot delete any registry records due to system limitations but are aware of the test and duplicate records, which they manually remove when making the data available to others.²
- Some registry records had incomplete information (e.g., street number, phone number, email address). Some registry records were also formatted inconsistently (e.g., inconsistent capitalization and abbreviations). Incomplete and inconsistent data make it difficult to identify duplicate or missing business records, maintain an accurate registry mailing list, and use software to visualize businesses on a map.

² The City provides public access to nonconfidential business registry data in its Open Data Portal at <http://data.cityofpaloalto.org/home>.

- Some businesses did not consistently classify themselves from year to year. For example, a business may have reported that it was a professional and general business corporation in one year and general retail in another year. Data standardization, including use of consistent and commonly-accepted terms to classify businesses, makes it possible to efficiently summarize, report, and analyze data and trends. Having accurate business classifications can also ensure that only businesses that meet the City's business registry exemptions are provided the exemption. Using an industry-accepted classification methodology, such as the North American Industry Classification System (NAICS) could improve the reliability of business classifications.³ For example, Retail Trade is one of 20 NAICS sectors, and includes 66 broad industry subcategories, such as car dealerships, clothing stores, pet stores, pharmacies, and household appliance stores. The subcategories are further broken down into specific types of establishments. For example, the Nursery, Garden Center, and Farm Supply Stores industry and the Hobby, Toy, and Game Stores industry each include 6 specific types of establishments.

*Businesses registry data
inconsistent with comparable
economic data*

The business registry showed a significant decline in the number of businesses and employees from 2015 to 2017 (Exhibit 1) that may be in part due to:

- A Municipal Code amendment in 2016 to exempt small businesses and nonprofit agencies from business registration.
- Businesses that did not respond to the City's registry survey.
- Inconsistencies between how businesses counted the number of employees to report to the City each year.

³ NAICS is used by federal statistical agencies to uniformly classify businesses based on the types of services and products they provide for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. The U.S. Economic Classification Policy Committee, Statistics Canada, and Mexico's Instituto Nacional de Estadística y Geografía jointly developed NAICS to allow for a high level of comparability in business statistics among the North American countries.

EXHIBIT 1
Business Registry Trends

Year	Certificates ⁺	Establishments ⁺	Employees	Square Feet	Leased Parking	Provided Parking
2015	2,589	2,912	75,082	32,644,221	3,746	69,053
2016	2,147	2,451	81,218	35,445,059	7,661	73,980
2017	1,929	2,225	68,514	29,364,348	7,289	67,624
Change from:						
2015 to 2017	-25%	-24%	-9%	-10%	+95%	-2%

⁺ Certificates correspond to the number of primary business establishments. Total establishments includes both the primary business and any secondary business locations recorded in the registry.

SOURCE: City of Palo Alto Business Registry

However, the decline is inconsistent with other data showing that the City had an overall positive economic trend during this period. U.S. Census data and sales tax data can be used as a proxy to show that the registry data is not sufficiently reliable. U.S. Census data from 2011 to 2016 (the most recent data available) show that the number of Palo Alto business establishments increased at least 2 percent each year. It shows that Palo Alto had 3,880 business establishments and 116,932 paid employees in 2016, compared to 2,451 establishments and 81,218 employees shown in the City's business registry, a difference of 1,429 establishments and 35,714 employees.⁴ Other comparable economic data show continued economic growth that is also inconsistent with the business registry data. For example, MuniServices' data show a 5 percent year-over-year increase in Palo Alto sales tax from 2015 to 2016 and from 2016 to 2017.

No past City process to validate the accuracy and completeness of 2015-2017 registry data

Palo Alto businesses are responsible for reporting accurate information about their businesses, such as the number of employees and parking spaces, in the City's annual registry survey. Development Services had a manual that provided an overview of the registry administration process, but it did not include a data dictionary or describe how to collect and maintain reliable data. Development Services did not have sufficient

⁴ The U.S. Census Bureau's Statistics of U.S. Businesses (SUSB) program provides the only source of annual, complete, and consistent enterprise-level data for U.S. businesses, with industry detail at: <https://www.census.gov/programs-surveys/susb.html>. SUSB data are from the Business Register, which contains the Census Bureau's most complete, current, and consistent data for U.S. business establishments taken from economic censuses, business surveys, Federal tax records, and other departmental and federal statistics. SUSB data are available 24 months after each reference year and include the number of firms, number of establishments, annual payroll, and employment.

policies, procedures, tools, or practices to ensure data reliability, such as:

- Business registry system settings to prevent errors or inconsistencies in data entry and formatting.
- Data analytic software to identify and correct unreliable records, including duplicate records.
- Unique accounts assigned for each Palo Alto business to help better track businesses, maintain reliable data, and avoid the manual process to update the registry mailing list each year.

Clarifying uses of the business registry can help improve reliability and relevance of the data

The purpose of the business registry is broadly stated as to provide information for managing land use, transportation, and zoning. To provide reliable and useful information, the registry should include all Palo Alto businesses and their addresses, even if some are exempt from paying a registry fee. Although the City Council and staff have provided input on the business registry questionnaire, the questions have remained generally unchanged since 2015. We did not identify any ongoing City process that uses the data, which suggests that the data does not currently meet the City's business needs or address its changing priorities. Being more specific about the potential uses of the business registry can help inform the types of questions that should be included in the registry questionnaire and the data the City collects, as well as help focus the City's efforts and resources to maintain the reliability of the data.

MuniServices's process to administer the City's registry should result in more reliable data

In 2018, Development Services contracted with MuniServices to administer the City's business registry. MuniServices has established some quality control processes that should result in more reliable data, including:

- Correcting the City's existing mailing list of Palo Alto businesses (e.g., removing duplicate business addresses).
- Assigning unique, password-protected user accounts for Palo Alto businesses in the MuniServices online business registry system.

- Comparing business registry data with the City's business improvement district (BID) data to identify businesses that may be included in one but not the other data set.⁵

However, the contract does not specify what comparable data MuniServices should use to verify the accuracy of the business registry or the frequency for making such comparisons. MuniServices plans to use the City's (BID) data and other data available to them to ensure that the registry is reliable going forward. Although this should help improve the reliability of business registry data starting in 2018, the comparison with the City's (BID) data may be of limited value because that program exempts businesses not within its boundaries.

Opportunities for improved data

MuniServices offers services that are outside of the City's contract scope that could address some of the concerns we identified and further improve the registry data such as:

- Comparing business registry records with other databases, such as MuniServices's proprietary data or the City's utilities customer billing data (e.g., customer name and address), to identify businesses that are not registered.
- In-person observation of businesses to see where businesses exist. According to MuniServices, this process may be costly and unpopular with businesses. However, it would provide a means of validating the completeness and accuracy of registry data. A more limited approach is for City staff to verify that a business is registered when the City receives a code enforcement complaint about a business or when a business applies for a permit.

Recommendations

We recommend that the City Manager:

1. Identify and consult with key stakeholders (e.g., City Council, Planning and Community Environment Department) who use the business registry to clarify existing and potential uses and priorities for business registry data. Based on these consultations, review and modify the questions, as necessary, that the City asks businesses to self-report.

⁵ MuniServices also administers the City's Business Improvement District assessment program, which requires businesses within certain geographic boundaries in Palo Alto to pay a fee that partially funds the activities of the Palo Alto Downtown Business and Professional Association.

2. As part of a broader strategy to improve the reliability of the business registry, explore and assess the cost versus benefit of the following options, which may work in synergy:
 - Identify the type and sources of external data that can improve the accuracy of data collected. This could include, for example, using the U.S. Census Bureau's Statistics of U.S. Businesses program data, either by itself or together with other available data, to validate business registry data and identify potentially unregistered businesses.
 - Provide City data to MuniServices to help improve and monitor the reliability of the registry data (e.g., validation of registration when code violations are reported against a business or when a business applies for a permit, utilities customer data).
 - Gather data from in-person observations of City businesses. If the City decides to conduct in-person observations, it should work with MuniServices to plan, conduct, and accurately record the observations in a useful format. Alternatively, this could include hiring temporary help to physically identify where businesses are located in the City to supplement data self-reported by businesses or through other data sources and to improve the accuracy of future updates.
3. Update the Development Services business registry administrative manual to reflect Development Services' new project management and contract administrator roles and responsibilities. The update should incorporate:
 - The City's guidelines for contract administration roles and responsibilities that are available in the City's *Procurement Fundamentals Training Guide*.
 - Specific steps to monitor the reliability of the registry data. This can include basic steps to periodically review trends and validate the consistency, accuracy, and completeness of a sample of registry records by comparing them with other City or publicly available databases.

APPENDIX – City Manager’s Response



Memorandum

DATE: August 27, 2018

TO: Harriet Richardson, City Auditor

FROM: Michelle Poché Flaherty, Deputy City Manager and Acting Director of Development Services

Cc: James Keene, City Manager
Ed Shikada, Assistant City Manager

SUBJECT: City Manager Response to Business Registry Audit

The City of Palo Alto Development Services Department appreciates the City Auditor’s work in preparation of this audit and acknowledges that the audit has identified a number of findings and recommendations which are addressed in the appendix.

The Business Registry Certificate program was proposed through a City Council Colleagues Memo in February 2014. City staff presented program concepts in April 2014, and the program was reviewed and approved by City Council from September to November 2014. This ensured that data collection would begin for the 2015 calendar year.

In Fiscal Year 2018, changes were implemented to address accuracy of data which included cancelling the contract with the initial software vendor and entering into a new contract with MuniServices, LLC., the City’s downtown business district fee collection firm, which also analyzes the City’s sales tax data.

As part of the 2019 Business Registry Certificate collection cycle staff also will implement several new elements to further enhance data reliability, increase revenues and strengthen customer service. The 2019 cycle will merge the collection of Downtown Business Improvement District dues with the Business Registry Certificate process. This will save the City costs, provide businesses with one invoice, increase revenues for the Downtown Business Improvement District and enhance data reliability through the merging of the two databases. In preparation for the 2019 cycle, Development Services staff will also utilize MuniServices’ business discovery service and meet with the Utilities and Information Technology Departments to seek further data collaboration. As noted in the appendix, staff will also bring forward further program recommendations to City Council prior to the Fiscal Year 2020 budget adoption. This will align any actions built from the City Auditor’s recommendation with possible fees increases to offset potential new program costs.

Overall, management has worked to continuously improve the business registry program since its inception, given City Council broad mandate. We appreciate the City Auditor's work in preparation of this audit. The recommendations also provide a basis for future program enhancements. The appendix states the action steps for each recommendation and management will report progress on implementation six months after the City Council accepts the audit report, and every six months thereafter until all recommendations have been implemented.

The City Manager has agreed to take the following actions in response to the audit recommendations in this report. The City Manager will report progress on implementation six months after the Council accepts the audit report, and every six months thereafter until all recommendations have been implemented.

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
Finding: The City’s business registry data was not reliable. Data that MuniServices LLC started collecting under contract with the City in 2018 should be more reliable, but there is opportunity for further improvement.				
To improve and maintain the quality of the City’s business registry data, we recommend that the City Manager:				
1. Identify and consult with key stakeholders (e.g., City Council, Planning and Community Environment Department) who use the business registry to clarify existing and potential uses and priorities for business registry data. Based on these consultations, review and modify the questions, as necessary, that the City asks businesses to self-report.	City Manager’s Office, Development Services, Planning and Community Environment, and Transportation	Agree Target Date: June 30, 2019 Corrective Action Plan: Development Services Department (DSD) will lead an effort to gather feedback from internal department stakeholders as noted in the column to the left. The department may also discuss the registry with external stakeholders. Staff will return to City Council for a recommendation prior to the 2020 Business Registry cycle.		
2. As part of a broader strategy to improve the reliability of the business registry, explore and assess the cost versus benefit of the following options, which may work in synergy: <ul style="list-style-type: none">Identify the type and sources of external data that can improve the accuracy of data collected. This could include, for example, using the U.S. Census Bureau’s	DSD	Agree Target Date: June 30, 2019 Corrective Action Plan: DSD agrees to explore and assess the cost versus the benefit of the suggested options. Staff will return to the City Council during the Fiscal Year 2020 budget cycle with any associated program recommendations.		

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
<p>Statistics of U.S. Businesses program data, either by itself or together with other available data, to validate business registry data and identify potentially unregistered businesses.</p> <ul style="list-style-type: none"> • Provide City data to MuniServices to help improve and monitor the reliability of the registry data (e.g., validation of registration when code violations are reported against a business or when a business applies for a permit, utilities customer data). • Gather data from in-person observations of City businesses. If the City decides to conduct in-person observations, it should work with MuniServices to plan, conduct, and accurately record the observations in a useful format. Alternatively, this could include hiring temporary help to physically identify where businesses are located in the City to supplement data self-reported by businesses or through other data sources and to improve the accuracy of future updates. 		<p>Staff does intend to utilize MuniServices business discovery and analytics services prior to the 2019 Business Registry cycle. This service will utilize external sources acquired by MuniServices. Staff will also meet with the Utilities and Information Technology departments to discuss data sharing.</p>		
3. Update the Development Services business registry administrative manual to reflect Development	DSD & ATT	<p>Agree</p> <p>Target Date: December 31, 2018</p>		

Recommendation	Responsible Department(s)	Agree, Partially Agree, or Do Not Agree and Target Date and Corrective Action Plan	To be completed 6 months after Council acceptance and every 6 months thereafter until all recommendations are implemented	
			Current Status	Implementation Update and Expected Completion Date
<p>Services' new project management and contract administrator roles and responsibilities. The update should incorporate:</p> <ul style="list-style-type: none"> The City's guidelines for contract administration roles and responsibilities that are available in the City's Procurement Fundamentals Training Guide. Specific steps to monitor the reliability of the registry data. This can include basic steps to periodically review trends and validate the consistency, accuracy, and completeness of a sample of registry records by comparing them with other City or publicly available databases. 		<p>Corrective Action Plan:</p> <p>DSD will update the administrative manual prior to the 2019 Business Registry Cycle. Staff does intend to review reliability of the registry data prior to the launch of each annual collection cycle and to include reference to this practice in the administrative manual.</p>		



CITY OF
**PALO
ALTO**

OFFICE OF THE CITY AUDITOR

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July 25, 2019

The Policy and Services Committee reviewed and recommended to the City Council acceptance of the Business Registry Audit on September 11, 2018, but requested additional information and clarification in the following areas that were not within the audit scope:

1. Reliability (i.e., completeness and accuracy) of 2018 business registry data that MuniServices collected for the City
 2. Decline in the number of business registrations from 2015 to 2017
 3. Comparison of Palo Alto's business registry with other jurisdictions
1. Reliability of 2018 business registry data collected by MuniServices:

Business registry data that MuniServices collected from March to August 2018 was not sufficiently reliable (i.e., complete and accurate); however, the City's 2018 contract with MuniServices did not include services to improve data reliability. In December 2018, the City entered a contract with Avenue Insights & Analytics, LLC to administer the City's business registry certificate and business improvement district fee collection programs, including services to "research and ensure the City's database of business is accurate and reliable." These services include cross referencing and merging of the City's business records contained in the current business registry database, business improvement district database, commercial utility billings, vendor file, and use and occupancy applications as well as unspecified external data sources. Avenue Insights & Analytics will continue to work with the City to improve the quality and consistency of the data.

Completeness:

To assess the completeness of MuniServices' 2018 business registry data, we identified and prioritized databases that contain Palo Alto business records, including internal City records (e.g., the business improvement district database, commercial utility billings, vendor file, and use and occupancy applications). Due to concerns about the overall completeness, consistency, and relevancy of existing City data, as discussed in past audit reports, we focused on identifying reliable external data from reputable sources shown in Exhibit A. We compared the names, addresses, and any available unique identifiers (e.g., Federal Employer Identification Number) in the 2018 business registry data with external data. Our comparison identified 17,538 unique businesses in these databases that are not found in the 2018 MuniServices business registry data, which includes 3,056 businesses, including secondary locations and businesses exempt from obtaining a business registry certificate.¹ Though, based on examination of several external databases, our estimate of 20,594 businesses in Palo Alto is consistent with a prior City consultant report issued on the topic,² it is important to consider that each

¹ In 2018, MuniServices issued 1,639 business certificates for 2,746 businesses, including secondary business locations (e.g., branches), compared to 1,929 certificates and 2,225 businesses in the City's 2017 data. Including exemptions, the 2018 MuniServices data had 3,056 businesses.

² <https://www.cityofpaloalto.org/civicax/filebank/documents/14976>

data set listed in Exhibit A, as well as the City’s Business Registry data set, has its own criteria for determining what to include as a business. For example, the City’s business registry is supposed to include a record for all businesses located in a “fixed places of business” in Palo Alto. The external data sets we examined, however, did not include definitive information to determine whether a business had a fixed place of business in Palo Alto. Those businesses may account for some of the 17,538 businesses not included in the MuniServices 2018 business registry data. In addition, some of the 17,538 businesses that we identified may have begun the process of forming a business, but ultimately may not have actually conducted business in Palo Alto. Exhibit A shows details of our comparison of the MuniServices 2018 business registry data with external data sets.

Exhibit A – Comparison of 2018 Business Registry Data with external data sets

Data Set	Results	Comments on differences
California Office of the Secretary of State’s (SOS) database of corporations, limited partnership, and limited liability companies registered with the SOS. The data set does not include sole proprietorships.	9,417 of 10,314 active Palo Alto corporation, limited partnership, and limited liability companies were not in the 2018 business registry.	Of the 9,417 active SOS listings not in the 2018 business registry, 3,441 were corporations, 4,798 were limited liability companies, and 1,178 were limited partnerships.
Infogroup’s database of Palo Alto businesses (includes sole proprietorships not in the SOS database)	8,247 of 9,480 Palo Alto businesses in Infogroup’s database were not in the 2018 business registry.	Of the 8,247 Infogroup listings not in the 2018 business registry, excluding 3,027 “unclassified businesses,” physicians (363), lawyers (216), other miscellaneous health practitioners (207), restaurants (177), and real estate agents & brokers (166) comprised the largest five categories.
GuideStar’s database of Palo Alto nonprofit organizations	809 of 1,038 Palo Alto nonprofit organizations in GuideStar’s database were not in the 2018 business registry.	Of the 809 GuideStar nonprofit listings not in the 2018 business registry, public charities (544) and private nonoperating foundations (175) comprised the largest categories.
MuniServices’ Sales Tax Analysis & Reporting Service (STARS) database of Palo Alto businesses that pay sales tax	698 of 1,182 Palo Alto businesses that pay sales and/or use tax were not in the 2018 business registry.	Of the 698 STARS listings not in the 2018 business registry, specialty stores (95), restaurants (90), personal services (42), light industry (39), and business services (36) comprised the largest five categories.
California Department of Tax and Fee Administration’s (CDTFA) database of Palo Alto businesses that pay sales tax	334 of 1,465 Palo Alto businesses that pay sales and/or use tax were not in the 2018 business registry.	Classification categories were not available in the CDTFA database.
Summary:	There were 17,538 unique businesses not in the 2018 business registry. This excludes 1,967 businesses that overlap among the 19,505 businesses identified in the above rows.	

Accuracy:

We also identified concerns about the accuracy, consistency, and usability of MuniServices' 2018 business registry data, which we have communicated to Development Services Department (DSD) and MuniServices staff. For example, the MuniServices 2018 business registry shows that Palo Alto business locations comprised about 77 million square feet compared to about 30 million square feet in the City's 2017 business registry data. The difference was due at least in part to unusually large, erroneous values entered for some businesses. There were also nonnumeric values in some numeric data fields (e.g., number of employees). MuniServices staff stated they would update their systems to prevent such errors in the future.

2. Trends that underlie the decline in the number of business registrations from 2015 to 2017:

Exhibit 1 in the Business Registry Audit report showed a 25 percent decrease in the number of business registry certificates from 2015 through 2017. We identified 1,136 businesses registered in 2015 that were not registered in 2017. Most of the 1,136 were small, service-oriented businesses (e.g., corporations and sole proprietorships with less than 4 employees). We spot checked some of these businesses and found that most should have registered in 2017. However, in accordance with an amendment to the City's Municipal Code, many of the 1,136 businesses may have had a valid exemption from registering starting in 2016. We did not have data needed to assess whether businesses had valid reasons for claiming exemptions. For example, 379 (66 percent) of 716 businesses that claimed exemptions in 2017 cited the City's exemption for small businesses or nonprofits with "less than 1 full-time equivalent employee on site." The data sets we used, shown in Exhibit A, did not have information on the number of full-time equivalents.³

3. Comparison of Palo Alto's business registry with other jurisdictions' business registries or licensing models to identify opportunities to improve data reliability and usability:

Our comparison of Palo Alto's business registry with other jurisdictions identified the following key differences:⁴

- All benchmark jurisdictions have revenue-generating business license and tax programs in contrast to Palo Alto's fixed-fee, business registry program. Benchmark jurisdictions use a variety of methods and rates to calculate business license taxes including fees based on annual gross receipts, the number of employees, and business square footage.
- Benchmark jurisdictions generally require a separate business license for each branch establishment or location of the business. Palo Alto's business registry program requires applicants to identify "additional business entities" and "secondary locations" under one primary business registry application. At DSD's request, MuniServices records these additional and secondary entities and locations in an extensive number of data columns for each registration. We have communicated concerns about maintaining and using data collected and stored in this manner to DSD staff (e.g., data analytic and visualization software cannot easily process data in this format). The City's new contract with Avenu Insights & Analytics includes additional

³ Infogroup data provides the number of employees for most businesses, but not Full Time Equivalents (FTE), defined as the ratio of the total number of paid hours during a period by the number of working hours in that period. GuideStar provides the number of employees for a limited number of nonprofit organizations.

⁴ Benchmark Cities included Atherton, Berkeley, Cupertino, Menlo Park, Mountain View, Newport Beach, Redwood City, Sunnyvale, and Walnut Creek.

customization and consulting services that the City can use to improve the structure and usability of the business registry.

- Benchmark jurisdictions generally require all businesses to obtain licenses to conduct business in the jurisdiction, with statutory and a limited number of jurisdiction-specific exemptions from payment of the license tax. Palo Alto's registry program is limited to businesses with a fixed place of business in the City (e.g., office) and requires only basic identification information for exempt businesses (i.e., exempt businesses, unlike in other jurisdictions, are not required to complete the complete registry application).
- To improve data reliability, benchmark jurisdictions use a variety of methods such as internal reviews, comparisons with other readily available data (e.g., permit applications from contractors), and contracts for data management services. Two benchmark jurisdictions use the California Franchise Tax Board's (FTB) City/County Business Tax (CCBT) Program, a free service that helps FTB find businesses not filing required tax returns and cities/counties find unlicensed businesses in their jurisdictions.⁵ Some jurisdictions participate in meetings of the California Municipal Revenue and Tax Association (CMRTA), which offers training and opportunities to discuss current issues with other business license professionals.⁶

⁵ https://www.ftb.ca.gov/businesses/City_Business_Tax_Program/index.shtml

⁶ <https://www.cmrt.org/>