

June 30, 2003

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
July 8, 2003

**PROPOSAL TO CONSIDER PLACING A MEASURE ON THE NOVEMBER
MUNICIPAL ELECTION BALLOT TO INCREASE THE
BUSINESS LISENCE TAX**

Recommendation:

That the City Council consider a proposal to increase the Business License Tax and other changes as set forth below and direct staff to include it on the 2003 Municipal Election in November. A 4/5 vote by the City Council is required in order to place a general tax increase on the ballot.

Background:

During the 2003-04 Budget Study Session, staff reported on a number of ways to reduce expenditures and raise revenues in order to balance the budget and preserve City services over the next few years. These efforts are necessary, in a large part, to extraordinary increases in costs largely attributed to increases in retirement costs and the potential reduction in revenues as a result of the state taking local government revenue to balance its budget. It is projected that the shortfall next fiscal year could exceed \$1,000,000, due almost entirely to the retirement costs that are outside the City's direct control. In order for the city to preserve the present level of services, additional revenues will be needed, along with reduction in expenditures to maintain a balanced budget. This proposal to increase the business license tax revenue is just one of the hard choices that the City will face in balancing the budget in the next couple of years. This proposal is being presented now so the City Council can consider placing it on the November ballot. The only time that the City can place a measure before the voters to increase taxes is at a regular municipal election. The next opportunity would be November of 2005. This proposal and the TOT tax proposal would, along with adjustments in expenditures, assist in meeting the projected shortfall that we are aware of now, which will probably only grow once the state completes action on its budget. Staff was directed at the budget session to set the business license tax proposal and TOT tax for consideration at this meeting as a public hearing.

The Business License Tax was last revised by the City Council in 1985 and 1986 and approved by voters in 1989. The present business license tax has a number of categories

and a number of methods for computing the tax. Copies of the present ordinance and rate schedules are attached. The present business license tax will generate \$682,000 for the 2003-04 fiscal year. The total number of business licenses issued is 2700, which works out to an average of \$231.11 per license.

The proposed changes include increases in the amount paid by contractors, increasing the rate for residential property rental and adding the category for rental of commercial property based on square footage, changing restaurants to the gross receipts method of calculation, increasing the gross receipts rate and consolidating them into single rate. The following is a break down of the proposed changes:

Category	Present Rate	Proposed Rate
Contractors	\$189	\$289

This proposed rate is based on the average of Manhattan Beach, Redondo Beach and Torrance. No change is proposed for the category of “sub-Contractor. This change is estimated to increase revenue by \$41,310. A copy of the rates charged by the three other cities is attached.

Category	Present Rate	Proposed Rate
Rental Property	\$24per unit	\$36 per unit

This proposed rate increase is consistent with the proposal to increase the gross receipt rate. This change is estimated to increase revenue by \$38,385.

Category	Present Rate	Proposed Rate
Commercial Property	None	Gross floor area over 5000sq ft at Rate of \$100 per 5000sq ft.

This is a new category. Based on this proposed rate it is estimated to generate \$10,000 in additional revenue. The city previously required a business license and the calculation method is the same.

Category	Present Rate	Proposed Rate
Restaurants	Rates vary	\$100 min \$2.00per \$1000 over \$10,000

This change of calculation would generate an additional \$52,728 over the amount paid on the several rates now charged to restaurants.

Gross Receipts Rate Change

There are a number of gross receipt rates in the present ordinance. The proposal is to set have one rate for all businesses on the gross receipts method of calculation. It is proposed that the rate be set at minimum of \$100 for the first \$10,000 and the \$2.00 per \$1000 for the amounts over \$10,000. In addition the cap for businesses in A-1 is increased from \$1100 to \$2200. This impacts 8 auto sales businesses. The overall impact of changing the rate for these businesses is an increase in revenue of \$167,431 per year.

The total revenue potential of these proposed changes is \$304,854 per year. If this amount is added to the 2003-04 revenue of \$682,000, the new budget total would be \$986,854. Assuming that the same number of business licenses were issued the new average would be \$365.50.

Respectfully submitted,

Stephen R. Burrell
City Manager

SRB:rem