

July 26, 2007

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
July 26, 2007

Business License Tax

Recommendation:

That the City Council review additional information to be provided prior to or at the meeting and determine whether or not to place a measure on the November ballot.

Background:

The City Council, at its July 25, 2007 meeting, reviewed a proposal ballot measure to increase the business License tax on specified categories of businesses. A subcommittee of Councilmembers, Sam Edgerton and Kit Bobko, was formed to meet with staff and review the proposal and return with changes at the Adjourned Regular Meeting on Tuesday, July 31, 2007.

The subcommittee has not had a chance to meet yet, but will prior to the City Council meeting on July 31, 2007. Staff will forward any materials as soon as they are available.

Attached is the report from the July 24, 2007 meeting for your reference.

Respectfully submitted,



Stephen R. Burrell
City Manager

July 16, 2007

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
July 24, 2007

**ADOPTION OF RESOLUTION SUBMITTING A MEASURE TO THE VOTERS ON THE
NOVEMBER MUNICIPAL ELECTION BALLOT TO INCREASE THE
BUSINESS LICENSE TAX ON SPECIFIC BUSINESSES**

RECOMMENDATION:

That the City Council submit a measure to the voters on the November Municipal election ballot to increase the Business License Tax as recommended in the staff report of 7/10/07, with revised fees of \$1.50/\$1,000 for restaurants and other businesses on the gross receipts method of calculation. A 4/5 vote by the City Council is required in order to place the measure on the ballot since it is a general tax increase.

Adoption of the attached resolution will place the ordinance (also attached) on the November 2007 ballot.

BACKGROUND:

This item was originally presented on June 12, 2007. The City Council continued the item to 7/10/07, requesting that the proposed rate schedule for commercial property be changed to cover a wider range of square footage.

At the meeting of July 10, 2007, the City Council requested that staff meet with the City Council Subcommittee of Councilman Edgerton and Councilman Reviczky to review a gross receipts rate of \$1.50/\$1,000 and \$1.00/\$1,000 for restaurants in addition to the originally proposed \$2.00/\$1,000 rate.

The agenda item from July 10, 2007 is attached as background material.

ANALYSIS:

The attached schedules show the current fee and revised fees at gross receipts levels of \$2/\$1,000, \$1.50/\$1,000 and \$1/\$1,000 for restaurants and other businesses on the gross receipts method of calculation.

Please note that the first line or "range" under each category shows the businesses whose fee decreases rather than increases. For example, in the first category of B-21, looking at the \$1.50 rate column, the new license fee will be less than the current fee for 10 businesses. There are 105 restaurants shown in the schedule; 45 will have a decrease in their license fee at the \$1.50/\$1,000 rate.

The current fee for restaurants is a flat fee. The recommendation is to change restaurants to the gross receipts method which will be more equitable since the volume of business is taken into account. As an example, in the first category, B-21, all

businesses pay \$181, from the smallest business with gross receipts of \$2,600 to the largest with over \$2 million in gross receipts.

The original proposal of \$2.00/\$1,000 generated additional business licenses fees of \$53,782, an increase of 62%. Revising the fee to \$1.50/\$1,000 generates an additional \$21,156, an increase of 24%. At a rate of \$1.00/\$1,000, the fees actually would be less than the current fee by \$11,551. The Subcommittee and staff recommend that the \$1.50/\$1,000 rate be used. This rate does not generate a lot of additional revenue at the outset but is a more equitable method and revenue will grow as businesses grow.

The Subcommittee and staff also recommend changing the other businesses on gross receipts to the same rate of \$1.50 so that there is one rate for all businesses on gross receipts. The original increase to \$2.00/\$1,000 would have generated an increase in revenue of \$173,222. Changing the rate to \$1.50/\$1,000 will generate an additional \$78,360.

SUMMARY:


The proposal from 7/10/07 would have generated total revenue of \$333,970 per year. With the change in gross receipts to \$1.50/\$1,000, the overall total will be \$206,481. For illustrative purposes, if this amount were added to the 2007-08 revenue of approximately \$800,000, the new revenue total would be \$1,006,481. Assuming that the same numbers of business licenses were issued, the new average would be \$355. Due to the fact that business licenses renew at different times and since the increase would only be effective for a portion of the fiscal year, the full impact of the change would not be recognized until 2008-09.

As presented in the 2007-08 Budget Message, this proposal is part of the overall strategy to increase revenue growth which will allow us to continue providing the same level of services to residents and businesses.

Respectfully submitted,



Viki Copeland
Finance Director


Stephen Burrell
City Manager

Business License Categories Restaurants

No. of Bus.	Gross Receipts	Current Fee	New Fee \$2/\$1,000	New Fee \$1.50/\$1,000	New Fee \$1/\$1,000
B-21 Restaurants w/o Liquor					
10	2,600 - 58,300	181.00	100.00 - 196.60	100.00 - 172.45	100.00 - 148.30
3	67,400 - 80,100	"	214.80 - 240.20	186.10 - 205.15	157.40 - 170.10
9	110,400 - 191,800	"	300.80 - 463.60	250.60 - 372.70	200.40 - 281.80
5	205,900 - 296,200	"	491.80 - 672.40	393.85 - 529.30	295.90 - 386.20
4	303,000 - 352,500	"	686.00 - 785.00	539.50 - 613.75	393.00 - 442.50
2	511,900 - 519,500	"	1,103.80 - 1,119.00	852.85 - 864.25	601.90 - 609.50
4	656,500 - 773,900	"	1,393.00 - 1,627.80	1,069.75 - 1,245.85	746.50 - 863.90
2	928,700 - 966,300	"	1,937.40 - 2,012.60	1,478.05 - 1,534.45	1,018.70 - 1,056.30
2	1,065,300 - 1,089,000	"	2,210.60 - 2,258.00	1,682.95 - 1,718.50	1,155.30 - 1,179.00
1	2,089,400	"	4,258.80	3,219.10	2,179.40
Total 42					
B-22a Restaurant w/Beer & Wine, No Entertainment					
2	188,700 - 195,900	648.00	457.40 - 471.80	368.05 - 378.85	278.70 - 285.90
2	399,200 - 509,000	"	878.40 - 1,098.00	683.80 - 848.50	489.20 - 599.00
Total 4					
B-22b Restaurant w/Beer & Wine, w/Entertainment - No businesses in this category					
B-22c Restaurant w/Beer & Wine, No Entertainment, 1,000 - 2,000 sq. ft.					
15	49,900 - 502,900	866.00	179.80 - 1,085.80	159.85 - 839.35	139.90 - 592.90
4	523,900 - 830,400	"	1,127.80 - 1,740.80	870.85 - 1,330.60	613.90 - 920.40
2	1,109,600 - 1,110,600	"	2,299.20 - 2,301.20	1,749.40 - 1,750.90	1,199.60 - 1,200.60
Total 21					
B-22d Restaurant w/Beer & Wine w/Entertainment, 1,000 - 2,000 sq. ft.					
2	150,600 - 160,500	1,294.00	381.20 - 401.00	310.90 - 325.75	240.60 - 250.50
1	880,000	"	1,840.00	1,405.00	970
Total 3					
B-22e Restaurant w/Beer & Wine, No Entertainment > 2,000 sq. ft.					
7	75,500 - 455,900	1,083.00	231.00 - 991.80	198.25 - 768.65	165.50 - 545.90
2	670,100 - 675,100	"	1,420.20 - 1,430.20	1,090.15 - 1,097.65	760.10 - 765.10
2	956,300 - 978,300	"	1,992.60 - 2,036.60	1,519.45 - 1,552.45	1,046.30 - 1,068.30
1	1,187,300	"	2,454.60	1,865.95	1,277.30
Total 12					
B-22f Restaurant w/Beer & Wine, w/Entertainment > 2,000 sq. ft. - No businesses in this category					

**Business License Categories
Restaurants**

No. of Buis.	Gross Receipts	Current Fee	New Fee \$2/\$1,000	New Fee \$1.50/\$1,000	New Fee \$1/\$1,000
B-23a Restaurant w/Liquor					
1	533,100	1,294.00	1,146.20	884.65	623.1
1	1,114,700	"	2,309.40	1,757.05	1,204.70
Total 2					
B-23b Restaurant w/Liquor, w/Entertainment					
1	640,200	1,725.00	1,360.40	1,045.30	730.2
1	1,538,800	"	3,117.60	2,393.20	1,628.80
Total 2					
B-23c Restaurant w/Liquor, No Entertainment					
2	209,600 - 366,900	1,512.00	499.20 - 813.80	399.40 - 635.35	299.60 - 456.90
2	1,729,700 - 2,871,800	"	3,539.40 - 5,823.60	2,679.55 - 4,392.70	1,819.70 - 2,961.80
1	3,261,500	"	6,603.00	4,977.25	3,351.50
Total 5					
B-23d Restaurant w/Liquor, w/Entertainment					
2	153,300 - 1,021,800	1,941.00	386.60 - 2,123.60	314.95 - 1,617.70	243.30 - 1,111.80
5	1,427,900 - 1,763,300	"	2,935.80 - 3,606.60	2,226.85 - 2,729.95	1,517.90 - 1,853.30
1	4,492,400	"	9,064.80	6,823.60	4,582.40
Total 8					
B-23e Restaurant w/Liquor, No Entertainment > 4,000 sq. ft.					
1	890,200	1,725.00	1,860.40	1,420.30	980.20
3	1,344,000 - 3,290,700	"	2,768.00 - 6,661.40	2,101.00 - 5,021.05	1,434.00 - 3,380.70
Total 4					
B-23f Restaurant w/Liquor, w/Entertainment 4,000 sq. ft.					
1	566,300	2,159.00	1,212.60	934.45	656.30
Total 1					
There are no businesses in the following five categories:					
B-24a Cocktail Bar - No Entertainment - Less than 2,000 sq. ft.					
B-24b Cocktail Bar - w/Entertainment - Less than 2,000 sq. ft.					
B-24c Cocktail Bar - No Entertainment - More than 2,000 sq. ft. and less than 4,000 sq. ft.					
B-24d Cocktail Bar - w/Entertainment - More than 2,000 sq. ft. and less than 4,000 sq. ft.					
B-24e Cocktail Bar - No Entertainment - More than 4,000 sq. ft.					

**Business License Categories
Restaurants**

No. of Bus.	Gross Receipts	Current Fee	New Fee \$2/\$1,000	New Fee \$1.50/\$1,000	New Fee \$1/\$1,000
	B-24f Cocktail Bar - w/Entertainment - More than 4,000 sq. ft.				
1	502,700	2,159.00	1,085.40	839.05	592.70
Total 1					
There are no businesses in the following six categories:					
	B-25a Beer/Wine Bar - No Entertainment - Less than 1,000 sq. ft.				
	B-25b Beer/Wine Bar - w/Entertainment - Less than 1,000 sq. ft.				
	B-25c Beer/Wine Bar - No Entertainment - More than 1,000, less than 2,000 sq. ft.				
	B-25d Beer/Wine Bar - w/Entertainment - More than 1,000, less than 2,000 sq. ft.				
	B-25e Beer/Wine Bar - No Entertainment - 2,000 sq. ft. or more				
	B-25f Beer/Wine Bar - w/Entertainment - 2,000 sq. ft. or more				
Totals for Restaurants/Bars					
		87,464.00	141,246.00	108,619.50	75,913
	Additional Revenue		53,782.00	21,155.50	(11,561.00)
	Percentage of Increase		62%	24%	-13%

**Business License Categories
Other Businesses on Gross Receipts**

No. of Bus.	Gross Receipts	Current Fee	New Fee \$2/\$1,000	New Fee \$1.50/\$1,000	New Fee \$1/\$1,000
A-1 Auto Dealer/Wholesale					
8	10,000 - 100,000	50.00 - 86.00	100.00 - 280.00	100.00 - 235.00	100.00 - 190.00
7	102,149 - 498,342	86.86 - 245.34	543.53 - 1,076.68	238.22 - 832.51	192.15 - 588.34
3	558,744 - 870,000	269.50 - 394.00	1,197.49 - 1,820.00	923.12 - 1,390.00	648.74 - 960.00
2	1,104,004 - 1,255,953	487.60 - 548.38	2,200.00	1,741.01 - 1,968.93	1,194.00 - 1,345.95
5	Over 1,104,004	777.33 - 1,100.00	2,200.00 max	2,200.00 max	1,918.32 - 2,200.00
Total 25					
A-22 Laundry/Dry Cleaning					
7	10,000 - 85,210	75.00 - 150.21	100.00 - 250.42	100.00 - 212.82	100.00 - 175.21
1	144,000	209.00	368.00	301.00	234.00
2	339,818 - 390,672	404.82 - 455.67	759.64 - 861.34	594.73 - 671.01	429.82 - 480.67
Total 10					
A-23 Laundromat					
1	4,400	75.00	88.80	91.60	94.40
2	51,830 - 60,505	110.56 - 117.93	183.66 - 201.01	162.75 - 175.76	141.83 - 150.51
1	125,485	173.16	330.97	273.23	150.51
Total 4					
A-23a Leased Laundry Equipment					
2	35,733 - 90,691	69.31 - 110.53	151.48 - 261.40	221.04 - 138.60	180.69 - 125.73
Total 2					
A-24 Hospital/Sanitarium/Mortuary					
2	1,575,605 - 2,837,000	1,405.76 - 2,477.95	3,231.21 - 5,754.00	2,448.41 - 4,340.50	1,665.61 - 2,927.00
Total 2					
A-25 Retail Sales					
20	10,000 or less	100.00	100	100	100
6	14,500 - 20,000	100.00	109.00 - 120.00	106.75 - 115.00	104.50 - 110.00
20	21,392 - 58,690	100.00 - 138.69	122.78 - 197.38	117.09 - 173.04	111.39 - 148.69
11	60,000 - 97,000	140.00 - 177.00	200.00 - 274.00	175.00 - 230.50	150.00 - 187.00
41	100,270 - 191,235	180.27 - 271.00	280.54 - 462.47	235.41 - 371.85	190.27 - 281.24
21	200,000 - 296,183	280.00 - 376.18	480.00 - 672.37	385.00 - 529.27	290.00 - 386.18

**Business License Categories
Other Businesses on Gross Receipts**

No. of Bus.	Gross Receipts	Current Fee	New Fee \$2/\$1,000	New Fee \$1.50/\$1,000	New Fee \$1/\$1,000
11	301,000 - 358,624	381.00 - 438.62	682.00 - 797.25	536.50 - 622.94	391.00 - 448.62
12	400,000 - 498,000	480.00 - 578.00	880.00 - 1,076.00	685.00 - 832.00	490.00 - 588.00
15	514,379 - 998,872	594.38 - 1,078.87	1,108.76 - 2,077.74	856.57 - 1,583.31	604.38 - 1,088.87
13	1,003,529 - 4,835,090	1,083.53 - 4,915.09	2,087.06 - 9,750.18	1,590.29 - 7,337.64	1,093.53 - 4,925.09
3	7,036,999 - 28,772,759	7,117.00 - 28,852.76	14,154.00 - 57,625.52	10,640.50 - 43,244.14	7,127.00 - 28,862.76
Total 173					
A-26 Telephone Company					
1	9,287,879	7,008.41	18,655.76	14,016.82	9,377.88
Total 1					
B-20 Specialty or Antique Shop					
1	1,140	100.00	82.28	86.71	91.14
3	15,000 - 43,838	100.00 - 123.84	110.00 - 167.68	107.50 - 150.76	105.00 - 133.84
3	111,000 - 322,828	191.00 - 402.83	302.00 - 725.66	251.50 - 569.24	201.00 - 412.83
Total 7					
B-26 Motion Picture - No business in this category					
E-2 Cigarette Machine					
1	28,760	64.07	137.52	128.14	118.76
Total 1					
E-3 Vending Machine					
1	500	50.00	100.00	85.75	90.50
1	68,376	93.78	216.75	187.56	158.38
Total 2					
E-4 Cigarette/Vending Machines - Gross receipts added into gross receipts of business					
Total Other Gross Receipts Categories					
		174,467.99	347,689.74	252,827.98	172,909.65
Additional Revenue			173,221.75	78,359.99	(1,564.34)
Percent of Increase			99%	45%	-0.90%

RESOLUTION NO. 07-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF HERMOSA BEACH CALIFORNIA CALLING AND GIVING NOTICE OF THE HOLDING OF A GENERAL MUNICIPAL ELECTION ON TUESDAY NOVEMBER 6, 2007 FOR THE SUBMISSION TO THE VOTERS OF A QUESTION RELATING TO AMENDING THE CITY'S BUSINESS LICENSE TAX ORDINANCE BY INCREASING THE GENERAL TAX ON SPECIFIED BUSINESSES

Section 1. Recitals

- A. Pursuant to Chapter 5.04 of the Hermosa Beach Municipal Code, the City currently levies a Business Tax on persons conducting business in Hermosa Beach;
- B. The City Council of the City of Hermosa Beach desires to submit to the voters at the election a question relating to amending the City's Business License Tax Ordinance by increasing the general tax on specified businesses;
- C. Proposed Ordinance No. _____, attached hereto and incorporated herein by reference as Attachment "A" (the "Ordinance") would implement these proposed revisions to the tax; and
- D. Under the provisions of the laws relating to general law cities in the State of California, a General Municipal Election shall be held on November 6, 2007.

Section 2. The City Council of the City of Hermosa Beach does hereby resolve, declare, determine and order as follows:

- A. The City Council finds and determines that each of the recitals set forth above are true and correct.
- B. That pursuant to the requirements of the laws of the State of California relating to general law cities, there is called and ordered to be held in the City of Hermosa Beach, California, on Tuesday, November 6, 2007, a General Municipal Election.
- C. The City Council proposes to impose the general tax set forth in the Ordinance, which is attached to this Resolution as Attachment A and

incorporated herein by reference, and will be presented to the voters on November 6, 2007 at the General Municipal Election.

- D. That the City Council, pursuant to its right and authority, by a two-thirds vote of its membership, does order submitted to the voters at the General Municipal Election the following question:

Shall an ordinance be adopted amending the City's business license ordinance to increase the existing tax on specified businesses, with revenues continuing to be used to support essential City services such as 911 emergency response, fire, police, sewer and street repairs, and with continued public review of the City Budget?	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>
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This question requires the approval of a majority of those casting votes.

- E. That in all particulars not recited in this Resolution, the election shall be held and conducted as provided in Resolution No. _____ and law for holding municipal elections.
- F. That notice of the time and place of holding the election is given and the City Clerk is authorized, instructed and directed to give further or additional notice of the election, in time, form and manner as required by law.
- G. In the event that the ordinance is approved by a majority vote of the electors casting ballots on November 6, 2007, the business license tax shall be collected in accordance with the revised rates in the same manner as the tax is currently collected, as set forth in Hermosa Beach Municipal Code Chapter 5.04 (Business License Tax).

Section 3. Upon the approval of the Ordinance by a majority vote of the electors voting on the issue and the certification of the results of the November 6, 2007 election by the City Council in the manner authorized by law, the Mayor and City Clerk are hereby authorized and directed to attest to the approval of the Business License Tax amendment by a majority vote of the electors.

Section 4. Pursuant to California Elections Code Section 9280, the City Clerk is hereby directed to transmit a copy of the Ordinance set forth in Section 2 above to the City Attorney, who shall prepare an impartial analysis of the measure, not to exceed 500 words in length, showing the effect of the measure on the existing law and the operation of the measure, and transmit such impartial analysis to the City Clerk within ten (10) days of the adoption of this Resolution.

Section 5. The City Clerk is hereby directed to file a certified copy of this Resolution with the Los Angeles Board of Supervisors and the Los Angeles County Registrar/Recorder.

Section 6. The City Clerk shall certify to the passage of this Resolution and enter it into the book of original resolutions.

PASSED, APPROVED AND ADOPTED by the City Council of the City of Hermosa Beach at a regular meeting held this ____ day of July, 2007 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

PRESIDENT of the City Council and **MAYOR** of the City of Hermosa Beach, California

ATTEST:

APPROVED AS TO FORM:

City Clerk

City Attorney

**AN ORDINANCE OF THE CITY OF HERMOSA
BEACH AMENDING THE BUSINESS TAX
ORDINANCE BY INCREASING THE TAX ON
SPECIFIED BUSINESSES AND CHANGING THE
METHOD OF TAXATION OF RESTAURANTS AND
BARS TO TAXATION ON THE BASIS OF GROSS
RECEIPTS**

The People of the City of Hermosa Beach hereby ordain as follows:

Section 1. Section 5.04.200.B. of Title 5, Chapter 5.04 of the Hermosa Beach Municipal Code is amended as follows:

- A. Paragraph 1 (Classification A), Groups 1, 17, 22, 23, 23a, 24, 25 and 26 are amended and a new Group 20 is added to read:

Group 1: Automobile agency, used car dealers, boat dealers, manufacturers, jobbers, wholesalers, second hand dealers shall pay an annual license tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts, but not to exceed a total of \$2,200.

Group 17: Hotel, motel, rooming house, boardinghouse, lodging house, apartment house, or any other accommodations for dwelling, sleeping or lodging containing three or more accommodations shall pay an annual license tax of \$44 per rental unit. Owner-occupied units are exempt from payment of the tax.

Upon application for a business license for rental units as required by this code:

- a. The applicant shall sign an agreement under penalty of perjury that to the best of the applicant's information and belief, the rental of the units for which the license is granted is conducted in accordance with all applicable city rules and regulations.
- b. Said business license permit shall also include a statement, executed by the property owner, that the granting of this license is for revenue purposes only and is not a consent of the city to grant to the owner any rights in the conducting of the business of rental units that are not otherwise granted by city laws, rules or regulations and that the

granting of the license is not to be considered by the owner as a waiver by the city of its rights to enforce any violation of certain laws, rules or regulations at any time.

- c. Upon the granting of a license for the conducting of the business of rental units, a copy of said license shall be forwarded to the building department for review with city records to determine if the licensed premises conform according to city records, to all laws, rules and regulations of the city.
- d. In the event that the building department determines a violation, according to city records, of any law, rule or regulation of the city exists, then the property owner shall be informed of the apparent violation and advised of any administrative hearings available to the owner to cause the rental units to conform to city laws, rules and regulations and further informing the owner that any enforcement by the city of such law, rule or regulation may, because of the lack of adequate personnel, be delayed but that such delay is not to be considered by the applicant as a waiver by the city of the enforcement of said laws, rules or regulations.
- e. The failure of the building department to give the notice required by subdivision (d) above shall not be grounds for the applicant to fail to comply with each law, rule or regulation of the city.

Group 20: Every person engaged in the business of renting or leasing commercial real estate property shall pay an annual license tax as set forth in the following chart:

SQUARE FEET	TAX
0 - 500	\$100
501 - 2000	\$200
2001 - 3500	\$300
3501 - 5000	\$400
5001 and over	\$500 plus \$100 for every increment of 1,500 square feet above 5001

Group 22: Laundry or similar business where the public may leave their laundry to be done—an annual tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts.

Group 23: Launderette, laundromats or dry cleaning on the premises by individual machines, where a charge is made through a coin-operated slot or on a flat fee basis—an annual tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts.

Group 23.a: Coin-operated washer and dryer equipment not owned by the proprietor in apartment houses, hotels, motels and other similar accommodations for dwelling, sleeping or lodging--Every person engaged in the business of renting, leasing or operating coin operated laundry equipment not otherwise specifically covered by this chapter on premises mentioned above shall pay an annual license tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts derived from the conduct of business within the city.

Group 24: Hospitals, sanitariums and rest homes, mortuaries, animal hospitals—an annual tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts.

Group 25: Selling or offering for sale to the public at retail any materials, commodities, goods, wares or merchandise, such as auto parts, food stores, bakery, garages, service stations, drug stores, florists, furniture, printing shops and all other similar, kindred or related operations for which a business license tax is not otherwise specifically mentioned above—an annual tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts.

Group 26: Telephone companies operating in the city and holding no franchise shall pay an annual license tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts.

- B.** Paragraph 2 (Classification B), Groups 8 and 20 are amended, Groups 21 through 25 are deleted, Group 26 is renumbered as 22 and amended, a new Group 21 is added to read:

Group 8: Massage therapy, practicing physiotherapy, health and physical culture establishments shall pay an annual license tax of \$250 for the first 1,000 square feet, \$250 for each additional 1,000 square feet, plus \$25 per employee. Issuance of a business license for an independent Massage Therapy business requires prior approval of a Conditional Use Permit and compliance with the licensing requirements of Chapter 5.74.

Group 20: Specialty shop: retail or service specialty establishments purveying primarily apparel, curios, artifacts, footwear, artistic materials, and related items—an annual tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts.

Group 21: Any restaurant or bar, cocktail lounge or nightclub where food and/or beverages are offered or sold for consumption on or off premises shall pay an annual license tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts. Issuance of a business license for a use in this category that sells alcoholic beverages requires prior approval of a Conditional Use Permit.

Group 22: Motion picture theaters—an annual tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts per annum. Issuance of a business license requires prior approval of a Conditional Use Permit.

C. Paragraph 3 (Classification C), Group 1 is amended to read:

Group 1: Every person engaged in business or acting as a general or engineering contractor (B or A); plumbing contractor (C-36); electrical contractor (C-10) shall pay an annual license tax of \$322.

D. Paragraph 5 (Classification E), Groups 2, 3 and 4 are amended to read:

Group 2: Cigarette machines: every person engaged in the business of operating any cigarette vending machine not otherwise specifically covered by this chapter where such operation is incidental to, or in conjunction with, some other business being operated on the particular premises shall pay an annual license tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts derived from the conduct of business within the city.

Group 3: Vending machines: every person engaged in the business of operating any vending machine, vending any service or product, and not specifically covered by this chapter, where such operation is incidental to, or in conjunction with, some other business being operated on the particular premises shall pay an annual license tax of one hundred dollars (\$100) on gross receipts of \$10,000 or less, plus \$1.50 for each additional one thousand dollars (\$1,000) of gross receipts derived from the conduct of business within the city.

Group 4: Where cigarette machine and/or vending machine owned by proprietor of business located within city: A proprietor of a business located within the city that is taxed on the basis of gross receipts under this Section, and that owns and operates a cigarette and/or other vending machine as a part of that business, shall include the gross receipts from the cigarette and/or vending machine with the gross receipts of the business. If the business is taxed on a basis other than on gross receipts under this Section, the revenues from the cigarette and/or vending machine shall be taxed as set forth in Group 3 above.

Section 2. Section 5.04.220 of Title 5, Chapter 5.04 of the Hermosa Beach Municipal Code is amended to read as follows:

5.04.220 Businesses not specified in this chapter.

Every business not specified in this chapter shall pay an annual license tax equal to the tax payable by the business category most comparable as determined by the license collector, plus annual cost of living adjustments as provided for by Section 5.04.230.

Section 3. Section 5.04.230 of Title 5, Chapter 5.04 of the Hermosa Beach Municipal Code is amended to read as follows:

5.04.230 Annual cost of living adjustment of taxes.

Taxes imposed in this chapter on a basis other than a percentage of gross receipts shall be adjusted on an annual basis using the percentage increase in the cost of living as calculated by the United States Bureau of Statistics for the Los Angeles-Anaheim-Riverside Standard Metropolitan Statistical Area.

Section 4. Effective Date. This Chapter shall become effective immediately upon the date that this Ordinance is confirmed and approved by the voters of Hermosa Beach at the Municipal General Election of November 6, 2007.

Section 5. Amendment or Repeal. Sections 5.04.200 and 5.04.220 of the Hermosa Beach Municipal Code may be repealed or amended by the City Council without a vote of the people. However, as required by Article XIIC of the California Constitution, voter approval is required for any amendment provision that would increase the rate of any tax levied pursuant to this Ordinance.

Section 6. Severability. If any section, subsection, sentence, clause, phrase, or portion of this Ordinance is for any reason held to be invalid or unenforceable by a court of competent jurisdiction, the remaining portions of this Ordinance shall nonetheless remain in full force and effect. The people hereby declares that they would have adopted each section, subsection, sentence, clause, phrase, or portion of this Ordinance, irrespective of the fact that any one or more sections, subsections, sentences, clauses, phrases, or portions of this Ordinance be declared invalid or unenforceable.

Section 7. Execution. The Mayor is hereby authorized to attest to the adoption of this Ordinance by the voters of the City by signing where indicated below.

I hereby certify that the foregoing Ordinance was PASSED, APPROVED and ADOPTED by the people of the City of Hermosa Beach voting on the 6th day of November, 2007.

Mayor

ATTEST:

APPROVED AS TO FORM:

City Clerk

City Attorney

Date: _____

Background Material

June 28, 2007

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
July 10, 2007

**ADOPTION OF RESOLUTION SUBMITTING A MEASURE TO THE VOTERS ON THE
NOVEMBER MUNICIPAL ELECTION BALLOT TO INCREASE THE
BUSINESS LICENSE TAX ON SPECIFIC BUSINESSES**

RECOMMENDATION:

That the City Council submit a measure to the voters on the November Municipal election ballot to increase the Business License Tax as set forth below and on the attached schedules. A 4/5 vote by the City Council is required in order to place the measure on the ballot since it is a general tax increase.

Adoption of the attached resolution will place the ordinance (also attached) on the November 2007 ballot.

BACKGROUND:

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 variety of methods for computing the tax. The estimated business license tax will generate almost \$800,000 for the 2007-08 fiscal year. The total number of business licenses issued is 2,832, which is an average of \$282 per license.

This item was originally presented on June 12, 2007. The City Council continued the item, requesting that the proposed rate schedule for commercial property be changed to cover a wider range of square footage. That change is reflected below. Clarification was also needed regarding which businesses would use the gross receipts rate. The attached schedules list those categories of businesses.

ANALYSIS:

The proposed changes include: an increase in the amount paid by contractors; an increase in the rate for apartments/hotels; addition of a category for rental of commercial property based on square footage; changing restaurants from a flat amount to the gross receipts method of calculation; changing health, fitness, and massage businesses from a flat fee to a square footage basis; an increase in the gross receipts rate; consolidation of gross receipts rates into a single rate.

The proposed change for each category, except businesses on gross receipts, is shown below. Businesses currently on gross receipts are not shown as a category in this report because there are a variety of businesses on that method. Please see the attached schedules for businesses that are currently on the gross receipts rate method

Category	Present Rate	Proposed Rate
Contractors	\$224	\$322

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 \$46,746. A copy of the rates charged by the three other cities is attached.

Category	Present Rate	Proposed Rate
Apartments/Hotels	\$29 per unit	\$44 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 \$50,220.

Category	Present Rate	Proposed Rate
Commercial Property	None	Gross floor area of 0-500 sq. ft., \$100 with an additional \$100 for each 1,500 sq. ft.

This category is one for which the City previously required a business license. Since the city does not currently have data on the square footage of leased or rented commercial property, this revenue is estimated at \$10,000. The fee schedule above is changed to reflect the request at the meeting of 6/12/07 to cover a wider range of square footage.

Category	Present Rate	Proposed Rate
Restaurants	Rates vary	\$100 min \$2.00 per \$1,000 over \$10,000

This change of calculation would generate an additional \$53,782 over the amount paid on the several rates now charged to restaurants.

Category	Present Rate	Proposed Rate
Health, Fitness, Massage	\$139 plus \$10 per employee	\$250 for 1,000 sq. ft, \$250 each additional 1,000 sq. ft. plus \$25 per employee

Since the square footage of these businesses is not readily available, an estimate of this increase is not calculated.

Gross Receipts Rate Change

There are a variety of businesses on a gross receipts rate in the present ordinance. The proposal is to set 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 \$2.00 per \$1,000 for the amounts over \$10,000. In addition the cap for businesses in A-1 is increased from \$1,100 to \$2,200. This impacts seven auto sales and wholesale businesses. The overall impact of changing the rate for these businesses is an increase in revenue of \$173,222 per year.

The attached schedules show which businesses will have a gross receipts rate, what the impact of the proposed change is for each category and the range of gross receipts amounts in the category. In addition, the current number of businesses in each category is shown. The gross receipts rate results in a lower fee for some businesses that are at a lower gross receipts level. The increase in overall tax collected results from those having the higher gross receipts.

SUMMARY:

The total revenue potential of these proposed changes is \$333,970 per year. For illustrative purposes, if this amount were added to the 2007-08 revenue of approximately \$800,000, the new revenue total would be \$1,133,970. Assuming that the same numbers of business licenses were issued, the new average would be \$400. Due to the fact that business licenses renew at different times and since the increase would only be effective for a portion of the fiscal year, the full impact of the change would not be recognized until 2008-09.

As presented in the 2007-08 Budget Message, this proposal is part of the overall strategy to increase revenue growth which will allow us to continue providing the same level of services to residents and businesses.

Respectfully submitted,

Viki Copeland
Finance Director

Stephen Burrell
City Manager

BUSINESS LICENSE CATEGORIES

Number of Businesses	Gross Receipts	Current Fee	New License Fee
B21 Restaurant w/o Liquor			
6	35,000 or less	181.00	100.00 - 150.00
1	36,000 - 50,000	"	152.00 - 180.00
6	51,000 - 100,000	"	182.00 - 280.00
9	101,000 - 200,000	"	282.00 - 480.00
5	201,000 - 300,000	"	482.00 - 680.00
4	301,000 - 400,000	"	682.00 - 880.00
2	501,000 - 600,000	"	1,082.00 - 1,280.00
1	601,000 - 700,000	"	1,282.00 - 1,480.00
3	701,000 - 800,000	"	1,482.00 - 1,680.00
2	901,000 - 1,000,000	"	1,882.00 - 2,080.00
2	1,000,001 - 1,100,000	"	2,082.00 - 2,280.00
1	2,000,001 - 2,100,000	"	4,080.00 - 4,280.00
Total	42		
B22A Restaurant w/Beer Wine, No Entertainment			
2	188,700 - 195,900	648.00	457.40 - 471.80
2	399,200 - 509,000	"	878.40 - 1,098.00
Total	4		
B22B Restaurant w/Beer/Wine w/Entertainment - No businesses in this category			
B22C Restaurant w/Beer/Wine, No Entertainment, 1,000 - 2,000 SF			
9	49,900 - 299,900	866.00	179.80 - 679.80
5	333,200 - 412,100	"	746.40 - 904.20
4	502,900 - 731,900	"	1,085.80 - 1,543.80
3	830,400 - 1,110,600	"	1,740.80 - 2,301.20
Total	21		
B22D Restaurant w/Beer/Wine w/Entertainment, 1,000 - 2,000 SF			
2	150,600 - 160,500	1,294.00	381.20 - 401.00
1	880,000	"	1,840.00
Total	3		
B22E Restaurant w/Beer/Wine, No Entertainment > 2,000 SF			
4	75,500 - 288,100	1,082.00	231.00 - 656.20
5	374,000 - 675,100	"	828.00 - 1,420.20
2	956,300 - 978,300	"	1,992.60 - 2,036.60
1	1,187,300	"	2,454.60
Total	12		
B22F Restaurant w/Beer/Wine w/Entertainment > 2,000 SF - No businesses in this category			

Number of Businesses	Gross Receipts	Current Fee	New License Fee
B23A Restaurant w/Liquor			
2	533,100 – 1,114,700	1,294.00	1,146.20 – 2,309.40
Total 2			
B23B Restaurant w/Liquor w/Entertainment			
3	640,200 – 3,3077,600	1,725.00	1,360.40 – 6,235.20
Total 3			

B23C Restaurant w/Liquor, No Entertainment			
2	209,600 – 366,900	1,512.00	499.20 – 813.80
2	1,729,700 – 2,871,800	"	3,539.40 – 5,823.60
1	3,261,500	"	6,603.00
Total 5			

B23D Restaurant w/Liquor w/Entertainment			
1	153,300	1,941.00	386.60
5	1,021,800 – 1,763,300	"	2,123.60 – 3,606.60
1	4,492,400	"	9,064.80
Total 7			

B23E Restaurant w/Liquor, No Entertainment > 4,000 SF			
1	890,200	1,725.00	1,860.40
3	1,344,000 – 3,290,700	"	2,768.00 – 6,661.40
Total 4			

B23F Restaurant w/Liquor w/Entertainment > 4,000 SF			
1	566,300	2,159.00	1,212.60
Total 1			

There are no businesses in the following five categories:

B-24A Cocktail Bar No Entertainment – Less than 2,000 sq. ft.

B-24B Cocktail Bar w/Entertainment – Less than 2,000 sq. ft.

B-24C Cocktail Bar No Entertainment – More than 2,000 sq. ft, less than 4,000 sq. ft.

B-24D Cocktail Bar w/ Entertainment – More than 2,000 sq. ft, less than 4,000 sq. ft.

B-24E Cocktail Bar No Entertainment > 4,000 SF

B24F Cocktail Bar w/Entertainment > 4,000 SF			
1	502,700	2,159.00	1,085.40
Total 1			

There are no businesses in the following six categories:

B-25A Beer/Wine Bar - No Entertainment – Less than 1,000 sq. ft.

B-25B Beer/Wine Bar - w/Entertainment – Less than 1,000 sq. ft.

Number of Businesses	Gross Receipts	Current Fee	New License Fee
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B-25C Beer/Wine Bar – No Entertainment – More than 1,000, less than 2,000 sq. ft.			
B-25D Beer/Wine Bar – w/Entertainment – More than 1,000, less than 2,000 sq. ft.			
B-25E Beer/Wine Bar – No Entertainment – 2,000 sq. ft. or more			
B-25F Beer Wine Bar – w/Entertainment – 2,000 sq. ft. or more			
A1 Auto Dealer/Wholesale			
8	10,000 – 100,000	50.00 – 86.00	100.00 – 280.00
5	102,149 – 498,342	86.86 – 245.34	543.53 – 1,076.68
3	558,744 – 870,000	269.50 – 394.00	1,197.49 – 1,820.00
7	Over 1,104,004	487.60 – 1,100.00	2,200.00 max
Total 23			
A22 Laundry/Dry Cleaning			
7	10,000 – 85,210	75.00 – 150.21	100.00 – 250.42
1	144,000	209.00	368.00
2	339,818 – 390,672	404.82 – 455.67	759.64 – 861.34
Total 10			
A23 Laundromat			
1	4,400	75.00	88.80
2	51,830 – 60,505	110.56 – 117.93	183.66 – 201.01
1	125,485	173.16	330.97
A23A Leased Laundry Equipment			
2	35,733 – 90,691	69.31 – 110.53	151.48 – 261.40
A24 Hospital/Sanitarium/Mortuary			
2	1,575,605 – 2,837,000	1,405.76 – 2,477.95	3,231.21 – 5,754.00
Total 2			
A25 Retail Sales			
26	20,000 or less	100.00	100.00 – 120.00
20	14,500 – 58,690	101.39 – 138.69	122.78 – 197.38
11	60,000 – 97,000	140.00 – 177.00	200.00 – 274.00
41	100,270 – 191,235	180.27 – 271.00	280.54 – 462.47
21	200,000 – 296,183	280.00 – 376.18	480.00 – 672.37
11	301,000 – 358,624	381.00 – 438.62	682.00 – 797.25
12	400,000 – 498,000	480.00 – 578.00	880.00 – 1,076.00
15	514,379 – 998,872	594.38 – 1,078.87	1,108.76 – 2,077.74
13	1,003,529 – 4,835,090	1,083.53 – 4,915.09	2,087.06 – 9,750.18
3	14,219,987 – 28,772,759	14,299.99 – 28,852.76	28,519.97 – 57,625.52
Total 173			
A26 Telephone Company			
1	9,287,878	7,008.41	18,655.76
Total 1			
Number of Businesses	Gross Receipts	Current Fee	New License Fee
B20 Specialty or Antique Shop			

4	1,140 – 43,838	100.00 – 123.84	100.00 – 167.68
3	111,000 – 322,828	191.00 – 402.83	302.00 – 725.66
Total 7			
B26 Motion Picture – No business in this category			
E2 Cigarette Machine			
1	28,760	64.07	137.52
Total 1			
E3 Vending Machine			
1	500	50.00	100.00
1	68,376	93.77	216.75
Total 2			
E4 Cigarette/Vending Machines – Gross receipts added into Gross receipts of business			

REVISION TO BALLOT LANGUAGE

Shall an ordinance be adopted amending the City's business license tax ordinance to 1) consolidate categories so that restaurant/bar establishments pay based on volume of business 2) add a new category for commercial landlords 3) increase rates for hotels/apartments, contractors, retail, health/fitness/massage businesses, auto dealers, laundry/dry cleaning, laundromats, animal hospitals, vending machines and telephone companies, with revenue continuing to be used to support essential City services, with continued public review of the City Budget?	YES	<input type="checkbox"/>	NO	<input type="checkbox"/>
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**SUPPLEMENTAL
INFORMATION**