

May 31, 2007

Honorable Mayor and Members of
the Hermosa Beach City Council

Regular Meeting of
June 12, 2007

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

RECOMMENDATION:

That the City Council consider submitting a measure to the voters on the November Municipal election ballot to increase the Business License Tax and other changes as set forth below. A 4/5 vote by the City Council is required in order to place a general tax increase on the 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 works out to an average of \$282 per license.

ANALYSIS:

The proposed changes include increases in the amount paid by contractors, increasing the rate for apartments/hotels, adding the category for rental of commercial property based on square footage, changing restaurants to the gross receipts method of calculation, changing health, fitness, massage businesses to a square footage basis and increasing the gross receipts rate and consolidating them into a single rate.

The following is a break down of the proposed changes:

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 over 5,000 sq. ft. at rate of \$100 per 5,000 sq. ft.

This category is one for which the City previously required a business license. Based on this proposed rate it is estimated to generate \$10,000 in additional revenue. The calculation method is the same as the previous fee.

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 number of gross receipt rates 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.

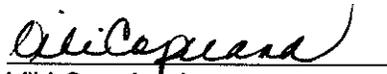
The attached schedules show the impact of the proposed increases on businesses in each of the existing categories and a range of gross receipts amounts. In addition, the current number of businesses in each category is shown. The gross receipts approach in some cases result in a lower fee for some businesses 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 illustration 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 number 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 with the TOT item on this agenda, this proposal is part of the overall strategy that was proposed during the 2007-08 Budget Workshop. With the General Fund paying some of the Lighting District costs, anticipation of high legal costs, expected downturns in building-related fees and flattening of sales tax revenue, some one-time items in the budget had to be funded from the Capital Improvement Fund and funds were used from the Retirement Stabilization Fund. The City Council took action to update fees and charges previously and there seemed to be some consensus to look at current subsidies and other areas where costs are not recovered. Increasing the business license rate would assist in continuing to offer the current level of services for residents.

Respectfully submitted,



Viki Copeland
Finance Director


Stephen Burrell
City Manager

**Survey of Cities
Contractor Fee Schedule**

City	General	Plumbing	Electrical	Engineering	Other Subs
Torrance	\$395.00	\$207.00	\$207.00	\$395.00	\$207.00
Redondo Beach	\$257.00	\$129.00	\$129.00	\$129.00	\$129.00
Manhattan Beach	\$313.44	\$313.44	\$313.44	\$313.44	\$156.72
Hermosa Beach FY 07-08	\$224.00	\$224.00	\$224.00	\$224.00	\$181.00
Three-City Average	\$321.81	\$216.48	\$216.48	\$279.15	\$164.24

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			
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			
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			
Number of Businesses	Gross Receipts	Current Fee	New License Fee
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	e200.00 – 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			
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			

Number of Businesses	Gross Receipts	Current Fee	New License Fee
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			