



City of Culver City

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Staff Report

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Receive an Update on the Implementation of Measure BL

Meeting Date: March 13, 2024

Contact Person/Dept: Michael Towler/Finance Department

Phone Number: (310) 253-5865

Fiscal Impact: Yes No **General Fund:** Yes No

Public Hearing: **Action Item:** **Attachments:**

Public Notification: (E-Mail) Meetings and Agendas - Finance Advisory Committee (03/07/2024)

Department Approval: Lisa Soghor, Chief Finance Officer (3/07/2024)

RECOMMENDATION

Staff recommends the Finance Advisory Committee (FAC) receive an update on the implementation of Measure BL.

BACKGROUND / DISCUSSION

As part of the City's 2018-2023 strategic planning goals, City Council directed staff to address the long-term financial stability of the City by reviewing existing revenue sources. As one of the top five General Fund revenue sources, business license tax was identified as one of the revenue sources to be updated. The City of Culver City had not updated business tax rates, classifications, and definitions since 1965 despite significant changes in business operations over those years. Highlights of the tax rate changes include increases in gross receipt tax rates to 0.13% (\$1.30 per \$1,000 in gross receipts) to 0.35% (\$3.50 per \$1,000 in gross receipts), as well as a gross receipts tax exemption up to \$200,000 annually for all its roughly 10,000 businesses. Staff anticipated that approximately 60% of businesses would be exempt from paying the business license tax annually and would only be subject to the annual license renewal fees and other state mandated and regulatory permit fees.

City Council approved the placement of the initiative ("Measure BL") on the November 2022 ballot. The voters approved the measure by a 61% Yes / 39% No margin. At the time, Measure BL was anticipated to generate up to \$10 million annually (above the Fiscal Year 2021-2022 baseline of

\$12.6 million). Measure BL is an ongoing general tax where the tax proceeds can be used for any general government purpose and can only be ended by voters via a future ballot measure. The ongoing funds will be used for general fund services such as emergency response, parks, and homelessness services. The tax measure went into effect on April 1, 2023, for new business license applications, and went into effect for existing businesses renewing their business license for calendar year 2024.

The City's business license tax is due annually on January 1 and becomes delinquent if not paid by the last day of February. The taxes due are primarily based on prior calendar year business activity. Late penalty assessment begins March 1 at 20%, and incrementally increases by 20% each month to 100% late penalty by July 1. To remain conservative, staff included \$8 million of the \$10 million projected revenue increase in the Fiscal Year 2023-2024 budget. This conservative budgeting approach reflects the anticipated shifts in the economy, including the general cooling of consumer demand on local business activity, as well as the potential impact to business gross receipts because of the various entertainment industry strikes. Payments were due no later than February 29, 2024. The City's business license tax consultant, HdL Software (HdL) is still compiling and reviewing the payments received. Staff anticipates that the City will have a better understanding of the actual revenue received by April.

To enhance customer service efforts and improve compliance with new tax regulations, City staff worked with the City's HdL to develop an outreach and implementation plan for the 2024 business license tax renewal and remittance cycle. As part of this plan, staff embarked on a multi-pronged approach that included an increased frequency of email and postal mail communications to businesses, improvements to the online customer service portals, updates to the various websites that included interactive and downloadable Frequently Asked Questions ("FAQ") documents, and improved coordination between City staff and HdL to provide effective customer service during normal business hours in-person, online and via phone. Staff is currently synthesizing the various statistics related to the performance measures of the City's outreach and implementation and will present them at the meeting.

Staff will continue to analyze the data as it becomes available over the first year of implementation and will make incremental budget adjustments to the revenue projections as needed throughout the fiscal year.

FISCAL ANALYSIS

None.

ATTACHMENTS

None.

MOTION

None.