City of Culver City

Staff Report Details (With Text)

File #:	22-1023	**Version:**	1	**Name:**	
Type:	Minute Order			**Status:**	Action Item
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On agenda:	5/23/2022			**Final action:**	

Title: CC - (1) ACTION ITEM: Discussion and Consideration of Whether to Place a Measure on the November 8, 2022 General Municipal Election Ballot to Submit to the Voters an Amendment to Culver City Municipal Code Section 11 to Increase the Business License Tax Rates and Update Various Sections of the Code; (2) (If Desired) Creation of an Ad Hoc Business License Tax Ballot Measure City Council Subcommittee and Appoint Two Council Members thereto; and (3) Direction to the City Manager as Deemed Appropriate.

Indexes:

Code sections:

Attachments: 1. 2022.05.23_Attachment No. 1_Avenue's Proposed Business License Rate Increase by Classifications

Date	Ver.	Action By	Action	Result
5/23/2022	1	City Council Meeting Agenda		

CC - (1) ACTION ITEM: Discussion and Consideration of Whether to Place a Measure on the November 8, 2022 General Municipal Election Ballot to Submit to the Voters an Amendment to Culver City Municipal Code Section 11 to Increase the Business License Tax Rates and Update Various Sections of the Code; (2) (If Desired) Creation of an Ad Hoc Business License Tax Ballot Measure City Council Subcommittee and Appoint Two Council Members thereto; and (3) Direction to the City Manager as Deemed Appropriate.

Meeting Date: May 23, 2022

Contact Person/Dept: Onyx Jones, Assistant City Manager
Phone Number: (310) 253-6023

Fiscal Impact: Yes [X] No [] **General Fund:** Yes [X] No []

Attachments: Yes [X] No []

Commission Action Required: Yes [] No [X] **Date:**

Public Notification: (E-Mail) Meetings and Agendas - City Council (05/18/2022)

Department Approval: John Nachbar, City Manager, (05/18/2022)

RECOMMENDATION

Staff recommends City Council: (1) discuss and consider whether to place a Measure on the

November 8, 2022 General Municipal Election Ballot to submit to the voters an amendment to Culver City Municipal Code Section 11 to increase the business license tax rates and update various sections of the code; (2) (if desired) create an Ad Hoc Business License Tax Ballot Measure City Council Subcommittee and appoint two Council Members thereto; and (3) direction to the City Manager as deemed appropriate.

BACKGROUND

The Culver City Municipal Code (CCMC) Chapter 11.01 (general licensing for businesses) has not been substantially updated since 1965. Charter cities, such as Culver City, may license, for revenue and regulation, and fix the licenses tax upon, every kind of lawful business transacted in the City, including shows, exhibitions, and games under the California Government Code 37100-37200.

The current business license tax rate structure is based on either gross receipts or a flat rate tax depending on the type of business activity. The following tax rates based on gross receipts are established in C.C.M.C 11.01.245 & 11.01.250 and are as follows:

1. GRT-A: $1.00 for each $1,000.00 (0.1%) or fraction thereof of gross receipts.
2. GRT-B: $1.00 for each $1,000.00 (0.1%) or fraction thereof of gross receipts.
3. GRT-C: $3.00 for each $1,000.00 (0.3%) or fraction thereof of gross receipts.
4. Various Flat Rate Tax applies to specific businesses

Although the following businesses and organizations are required to obtain a business tax certificate and any necessary permits, they are not required to pay a business tax:

- Charitable organizations,
- Parks, recreation & community services contractors,
- Employees; and
- Homeowners' associations.

All other businesses must pay business license tax annually. In FY 2020/2021, business license tax revenue was $12.56M and in FY 2019/2020 the revenue was $13.54M. These amounts do not include business license fees or penalties. Business license revenue is a part of the General Fund and can be used for any General Fund expenses including emergency services.

DISCUSSION

As part of the 2018-2023 Culver City Strategic Plan, City Council directed staff to review the long-term financial stability of the City by reviewing existing sources of revenues. The business license tax was identified as one of the existing sources of revenues that should be reviewed for long-term financial stability.

Staff hired Avenu Insight in 2019 to review the City's business license tax rates and make recommendations that would bring the City's rates in-line with the current market. Avenu reviewed

the business license tax rates from cities in the Southern California area and chose the following neighboring cities as benchmark cities (Los Angeles, Santa Monica, Beverly Hills, Inglewood, and Hawthorne). See **Exhibit:1** for comparison of Culver City's tax rates with the benchmark cities. Exhibit:1 shows the benchmark cities business license rates were either equal to or higher than Culver City's tax rates. Culver City's rates for most categories are 0.1% with the exception of Medical/Professional and Oil Production Companies. Those tax rates are 0.3% and 1.8% respectively. All of the tax rates in Los Angeles, Santa Monica, and Inglewood are 0.1% or higher, with a majority of the rates being higher than 0.1%. The City of Hawthorne is the only City that charges 0.1% for all of its business license tax categories; however, they also have a flat fee of $120 per business.

Exhibit 1:

Culver City Business License Rate Comparison with Other Cities

	Culver City		Los Angeles		Beverly Hills			Santa Monica		Inglewood		Hawthorne	
Classification	Flat Fee	GR Rate	Flat Fee	GR Rate	Flat Fee	# of Emp	GR Rate	Flat Fee	GR Rate	Flat Fee	GR Rate	Flat Fee	GR Rate
Contractors		0.10%		0.26%	$75.00		0.10%	$75.00	0.30%	$93.50	0.11%	$120.00	0.10%
Medical Facilities		0.10%		0.10%			0.10%	$75.00	0.30%	$33.00	0.17%	$120.00	0.10%
Residential Care		0.10%		0.10%			0.10%	$75.00	0.30%	$33.00	0.17%	$120.00	0.10%
Child Care Facilities		0.10%		0.10%			0.10%	$75.00	0.13%	$33.00	0.17%	$120.00	0.10%
Theater		0.10%		0.13%			0.10%	$75.00	0.13%	$22.00	0.12%	$120.00	0.10%
Rental - Residential		0.10%		0.13%			1.20%	$75.00	0.13%	$20.00		$120.00	0.10%
Rental - Commercial		0.10%		0.13%			2.35%	$75.00	0.13%	$22.00	0.12%	$120.00	0.10%
Restaurants		0.10%		0.13%	$75.00		0.10%	$75.00	0.13%	$22.00	0.12%	$120.00	0.10%
Retail		0.10%		0.13%	$75.00		0.10%	$75.00	0.13%	$22.00	0.12%	$120.00	0.10%
Personal Services		0.10%		0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
All Other/General Business		0.10%		0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
Medical & Professional		0.30%		0.45%	$1,464.00	25		$75.00	0.50%	$33.00	0.17%	$120.00	0.10%
Professional 2		0.10%		0.45%	$1,464.00	25		$75.00	0.50%	$33.00	0.17%	$120.00	0.10%
Auto Parking Lot	$36	0.36%		0.36%			0.10%		10.00%	$22.00	0.12%	$120.00	0.10%
Landscapers & Gardeners	$36			0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
Video/ Pic Production-in City		0.10%		0.13%			0.10%	$75.00	0.30%	$220.00		$120.00	0.10%
Handbill Dist.	$60			0.36%			0.10%	$50.00		$22.00		$120.00	0.10%
Vending & Arcade Machine	$120			0.26%			0.10%	$25.00		$49.50	0.17%	$120.00	0.10%
Vehicle Business	$250			0.36%			0.10%	$50.00		$88.00		$120.00	0.10%
Oil Production		1.80%		0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
Rentals - Hotels		0.10%		0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
Utilities		0.10%		0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
Warehouse				0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%
X-mas Decorations	$42			0.36%			0.10%	$75.00	0.30%	$22.00	0.12%	$120.00	0.10%

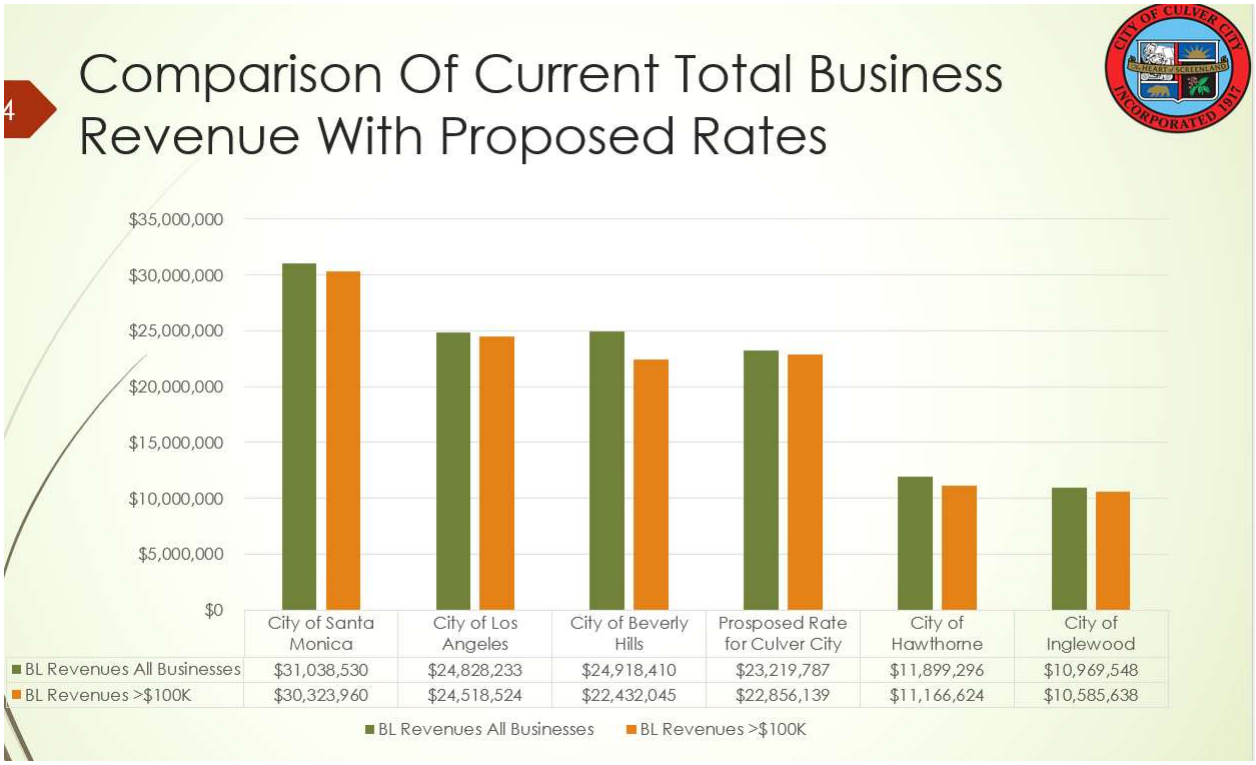
*GR - Gross Receipts

Avenu Insight's report also provided various calculations to show the City how much estimated business license tax revenue would have been received if the City adopted the same tax rate structures as the benchmark cities. **Exhibit:2** uses Culver City's gross receipts data reported on the 2021 business tax renewal notices to arrive at the estimated annual business license revenue for each benchmark City.

Avenu Insight also provided their recommendation for a new proposed business license tax rate structure (see **Attachment No.1**). They proposed ten different business license tax rates for gross receipts versus two rates the City currently uses. Using Avenu Insight's proposed business license

tax rate structure and the gross receipts reported in 2021, the City's total revenue projection for business license revenue could potentially increase from $12M to $23M. It is clear in Exhibit 2 even with the increase in the proposed tax rates Culver City's increased rates would still be ranked fourth highest when compared to the benchmark cities. In summary, if Culver City accepted Avenu Insight's proposed tax rates, a business currently located in Culver City would still be paying a lower Business License tax than the benchmark cities of Los Angeles, Santa Monica, or Beverly Hills.

Exhibit: 2



** It is important to note that these estimates are derived using one year's gross receipts data, which may not necessarily be typical. Ultimately, the amount of additional revenue generated will depend on the gross receipts reported in any given year.*

In 2019, Staff also hired a consulting firm, FM3, to conduct a survey on a potential business license tax ballot measure. The results of this survey stated:

- After both educational and opposition statements, 67% of the residents surveyed supported the measure. This type of ballot measure only requires a majority vote to pass.
- Culver City residents supported increasing the City's business tax rates to be similar to other neighboring cities.
- Culver City residents supported exemptions to small businesses with gross receipts under

$100,000 and/or businesses with 10 or fewer employees.
    - If Council voted to include this exemption in the ballot language, it would lower the estimated revenues by approximately $360,000.
- Culver City residents also supported an annual adjustment to the proposed tax rates based on inflation.

During the January 10th, 2022 City Council meeting, Council directed staff to conduct a second survey. Staff hired FM3 to conduct the survey in April 2022. FM3 and staff drafted the following preliminary draft ballot question language:

> **CULVER CITY BUSINESS TAX AND LOCAL NEIGHBORHOOD SERVICES MEASURE.**
>
> *Shall the measure to maintain firefighter, paramedic, police, emergency response services; upgrade roads, parks, libraries, senior/youth services, general fund services, preserve emergency reserve funds for natural disaster response by increasing the business license tax for the majority of businesses from an average of 0.14% to 0.24%, generating approximately $12,000,000 annually until ended by voters, exempting qualifying small businesses, requiring audits/local use of funds, be adopted?*

The consultant, FM3, presented the survey results to the Affordable/Workforce Housing Ad Hoc Subcommittee, the Finance Advisory Committee (FAC), the Advisory Committee on Housing and Homelessness, and the Equity & Human Relations Advisory Committee in the month of April. City Council received this same presentation at the City Council Meeting on May 9th, 2022.

The results from the second survey indicated that 59% of the residents still supported the increase in business license tax rates. FM3's report states "A ballot measure to increase the city's Business License Tax is at a weaker position than when tested previously; however, when voters are provided with additional information about the proposal, support increases to six in ten. These results suggest Culver City should commit to a public education program to engage with the community to help residents understand how the proposed measure would be implemented and structured to promote fairness, and how funds raised would be used to address community priorities."

Finance Advisory Committee (FAC)

Toward the end of 2019, Staff presented the FAC with the full Avenu Insight report, which included the proposed business license tax rate structures presented in Exhibit 2. The FAC also received a presentation from FM3 with the first survey results in early 2020. The FAC members voted to form a business license subcommittee and the FAC Subcommittee reviewed the information from Avenu Insight in detail. As indicated in the paragraph above, in April of 2022, the FAC received a second presentation from FM3 with the updated ballot measure survey results.

Legal Review

Culver City's business tax rates were last substantially updated in 1965, so Finance staff along with the City Attorney's office are currently reviewing the entire Chapter 11.01 to ensure the tax language is up to date. If modifications are needed that would have a bearing on the tax rates charged, staff will bring those modifications back to City Council when it returns with a draft proposed ordinance, if the Council determines to place the matter on the November 8, 2022 ballot. It should be noted that

these other types of modifications to Chapter 11.01 would only be included in the ballot measure ordinance if such changes would necessitate voter approval. Otherwise, those amendments would be included in a separate ordinance that would be considered directly by the City Council.

Ad Hoc Business License Tax Ballot Measure Subcommittee

If City Council gives direction to move forward on increasing the Business License tax, staff recommends the creation of an Ad Hoc Subcommittee and the appointment of two City Council Members thereto to work with staff to make recommendations to Council on the following items:

1) Development of an ordinance to update Chapter 11 of the Municipal Code Ordinance;
2) Development of a new proposed business license tax rate structure.
    a. Note: A more complex business license tax structure could become difficult for the taxpayers to calculate, more expensive for the City to monitor and it may require the City's third-party vendor, HdL to update their software system to accommodate the new rates;
3) Whether or not to provide exemptions to businesses on the first $100,000 of gross receipts;
4) Whether or not to allow for annual Consumer Price Index increases; and
5) Additionally, the Subcommittee could be tasked with writing the arguments in favor of the Measure if the City Council votes to place it on the ballot. Voters will receive the ballot arguments, as well as an Impartial Analysis by the City Attorney, in their Voter Pamphlet

Staff and the City Attorney's Office may also need to work with a consultant in the preparation of the draft ordinance.

If the City Council provides direction to place such a business license tax increase on the November 8, 2022 ballot, staff would return to City Council with a draft proposed ordinance and ballot measure language on Monday, July 11, 2020, to meet the August 12th deadline to place measures on the November 8, 2022 ballot.

FISCAL ANALYSIS

If approved, the ballot measure will increase the City's cost to hold the General Municipal Election on November 8, 2022 by approximately $20,000. That additional cost includes Los Angeles County's costs to print and provide the measure on the ballot. A public education program to inform the public about the ballot measure, if desired, is estimated to cost approximately $30,000. These expenses will be paid from the General Fund's Non-Departmental Acct #10116100.619800.

If approved by voters, depending on the tax structure selected by City Council, the business license tax increase could have a positive impact of $11 million annually on the General Fund, although taxes raised through this type of tax are unpredictable as they reflect the economic climate. A recession would likely have a significant negative impact on the amount of revenue generated by a business license tax measure.

ATTACHMENTS

2022.05.23_Attachment No. 1_Avenue's Proposed Business License Rate Increase by

Classifications.

MOTION

That the City Council:

1. Discuss whether to place a Measure on the November 8, 2022 General Municipal Election Ballot to submit to the voters an amendment to Culver City Municipal Code Chapter 11.01 to increase the business license tax rates and update various sections of the code, as applicable;

2. (If Desired) Create an Ad Hoc Business License Tax Ballot Measure City Council Subcommittee and appoint two Council Members thereto; and

3. Direction to the City Manager as deemed appropriate.