



CITY COUNCIL AGENDA REPORT

MEETING DATE: July 17, 2012

ITEM NUMBER:

SUBJECT: DISCUSSION REGARDING POSSIBLE BUSINESS LICENSE TAX INCREASE

DATE: JULY 12, 2012

FROM: FINANCE DEPARTMENT/FINANCE ADMINISTRATION

PRESENTATION BY: BOBBY YOUNG, FINANCE & I.T. DIRECTOR

**FOR FURTHER INFORMATION CONTACT: BOBBY YOUNG, FINANCE & I.T. DIRECTOR
(714) 754-5243**

RECOMMENDED ACTION:

Provide direction to staff regarding Council's desire to establish and propose a Business License Tax Ballot Measure for the November 6, 2012 general election at a July 24, 2012 Special Meeting.

BACKGROUND:

The City last amended the Business License Tax (Section 9-1 of the Municipal Code) in April 1985. The code section states:

"For the purpose of raising revenue for the city, every person conducting, carrying on, or engaging in any business shall pay a business tax to the city as hereinafter set forth, and any person who conducts, carries on, or engages in any business for which payment of a business tax is required under the provisions of this title, without having paid the required tax, is guilty of a misdemeanor or infraction. Each day of operation in violation of this section shall constitute a new and separate offense. "

Given that the payment associated with the issuance of a business license is imposed for the purpose of raising revenue, it is determined the payment is a tax not a fee. Since Proposition 62 (1986), all taxes must be approved by two-thirds of the governing body (4 of 5), and a simple majority of the voters at a general election.

The following is the anticipated timeline should the City Council elect to submit a resolution to voters for approval of the ordinance on the November 6, 2012 general election.

- July 24 – City Council adopts resolution to put measure on ballot
- July 25 – Resolution submitted to County to place measure on ballot
- Aug 7 – Direct arguments and impartial analysis due
- August 17 – Rebuttals due

ANALYSIS:

Section 9-25 of the City's Municipal Code establishes the tax structure based upon the annual gross receipts of a business. This structure is widely used by cities for the business license tax because of its ease of use and understanding. Businesses required to file tax returns must report total gross receipts. Using tax filings allows for ease of auditing businesses to ensure the proper tax is paid.

When using the gross receipts method, most cities have adopted either a tier structure or a millage rate. A mill rate establishes an amount, usually per \$1,000 of gross receipts to determine the tax, sometimes without a cap. Section 9-25 established a tier format used to calculate the applicable tax as seen below.

Current

Annual Gross Receipts	Tax Due
Under \$1,000	\$0
\$1,000.01 - \$25,000	\$25
\$25,000.01 - \$40,000	\$35
\$40,000.01 - \$75,000	\$45
\$75,000.01 - \$200,000	\$60
\$200,000.01 - \$500,000	\$100
Over \$500,000	\$200

The projected revenue from Business License Tax in FY 12-13 is \$850,000.

The City has contracted with MuniServices to conduct a study to provide staff with information about different tax structures and comparative analysis with surrounding cities for perspective. The report compiled by MuniServices can be seen as Attachment A.

At the July 10, 2012 City Council Study Session, staff presented some comparative analysis and an initial recommendation to retain a tier structure but a change to gross receipt tiers and the tax due. With a minimum tax of \$50 due to staff time and other resources used for issuing the license, and a maximum of \$10,000, the potential increase in revenue is \$2.7 million.

As seen on pages 9-11 of Attachment A, a summary of other options provided by MuniServices shows additional alternatives and information. These options range from keeping the same tier structure and just doubling the current tax, to altering the tier structure and increasing the tax in different amounts.

At the Study Session, City Council also requested information about a per employee structure. Unfortunately, neither MuniServices nor City staff could compile information on the City's business community to determine a recommendation and what the financial impacts of that recommendation would be. Should the City Council desire a per employee structure, staff may suggest to not place any measure on the ballot for November 2012, and direct staff to alter the current business license tax application to retrieve that information so that the City will have data available for a future potential ballot measure.

Staff has also been conducting research into upgrading the current license system to one with an online business license tax feature. This will allow businesses to apply, renew and pay for the license online. It could also provide online renewal noticing and enhance audit features by linking with other business data provided to the City. The potential cost of providing these features to the City and business community could be offset by the increase in tax revenue. Staff will also work toward enhancing our enforcement capabilities in an effort to ensure businesses are in full compliance with current ordinances.

ALTERNATIVES:

City Council can choose to alter the above tier amounts either by doubling the current amounts or by using some other factor and staff will provide the estimated financial impacts of any changes. Another alternative is to amend the current tier structure to reduce the number of tiers from seven to three or four, thus simplifying the process altogether. City Council could also choose to direct staff to begin gathering number of employee data from businesses to enlarge our database for future potential business license tax ballot measures.

CONCLUSION:

During FY 2011-12 City Council stated a desire to have staff provide information regarding a potential business license tax ballot measure for the purposes of increasing the current tax. Attached is a report provided to the City from MuniServices, whom the City contracted to gather data and provide analysis of the current business license tax as well as alternatives.

BOBBY YOUNG
Finance and I.T. Director

Attachment A – Business License Tax Classification and Tax Rate Structure Report –
MuniServices



Business Tax Classification & Tax Rate Structure Report

Prepared in partnership with:

The City of Costa Mesa, California



Project #: 2012_BL CMTAXFD1, Draft v1.63B

July 12, 2012



Project Summary

The City of Costa Mesa intends to explore the option of implementing a modified business tax program with the objective of raising revenue for the City while minimizing the administrative cost and maintaining the public's support.

The goal of this project is to develop a concise, simplified, and customer-friendly business tax, while achieving the City's revenue goals. To accomplish the City's business tax goals, the agreed upon scope of work for the project includes the following components:

- Perform a comparative analysis and survey of the business tax fees and classification used by surrounding and / or similar taxing agencies.
- Create sample business tax fee structures

The approach was to divide this project into two distinct phases, including Phase 1 - Business Tax Structure & Revenue Models Analysis, and Phase 2 - Business Tax Comparative Study. A synopsis of each Phase is as follows:

Phase 1 - Business Tax Structure & Revenue

In order to establish tax structures and develop revenue estimates, MuniServices brought together key elements of the first phase of the project. MuniServices will create a number of potential tax structures based on gross receipts that the city may choose from when implementing their tax.

Of the all the methods identified, MuniServices recommends the continued use of a Gross Receipts tax structure as the primary method to calculate business taxes in the City of Costa Mesa. The goal is to maximize revenues and create equity among the tax base while remaining competitive with the surrounding jurisdictions.

MuniServices was able to approximate the averages of gross sales for many of the primary businesses when this information was absent from the business tax registry data provided by the City. Inputting these variables into the aforementioned recommended tax structure, MuniServices estimates the City's business tax base will consist of approximately 11,700 (9,027 Gross Receipt Category) businesses generating \$1.4 to \$3.4 million in net tax revenues.

Phase 2 - Business Tax Comparative Study

MuniServices surveyed and analyzed the business taxes utilized by other similar and /or surrounding local agencies to identify the common tax structures assessed. MuniServices selected cities based on proximity to the City and those with a comparable population and other taxation variables such as economic make-up of the business base. The process is designed to glean two key pieces of information. The first is the statistical data necessary to ensure the marginal accuracy of the data compiled. The second is to provide the City the ability to evaluate proposed taxation structures with those of neighboring cities.



Costa Mesa - Current Tax Structure

Overview

MuniServices utilized the Business Tax Registry data and a Business Distributive Subset (BDS) to estimate revenues and classification structures. This subset was developed by extrapolating the record sets with the most reliable data, comparing them with averages developed during Phase 2 - Business Tax Comparative Study and adjusting the subset to be reflective of the City's own business base.

This process combined many variables, such as population, sales tax permits, SIC codes, and commercial space available, to estimate the averages for Costa Mesa. This subset, while not an exact composition of the businesses subject to taxation, reflects the most likely breakdown of businesses activities and average calculation details such as gross receipts.

TABLE (A) City of Costa Mesa - Current Business Tax Classification Summary

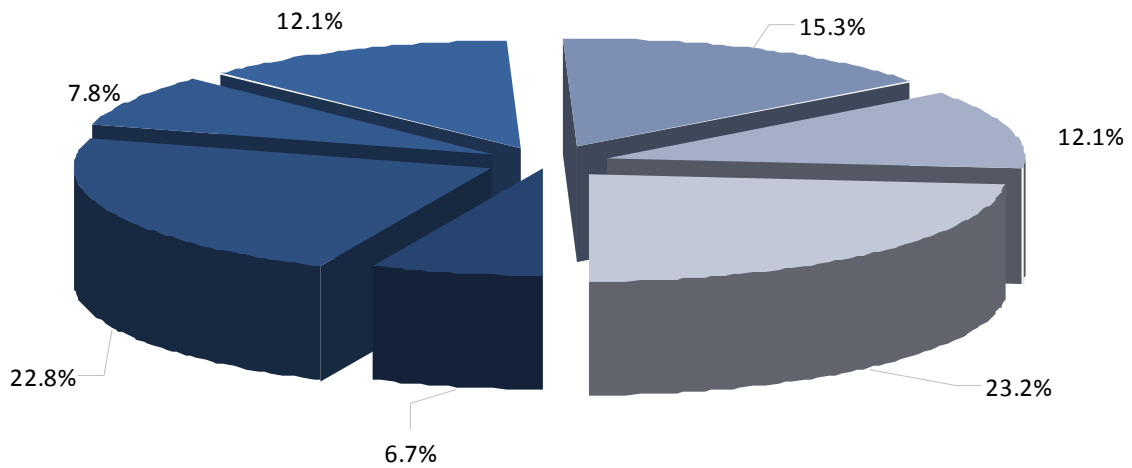
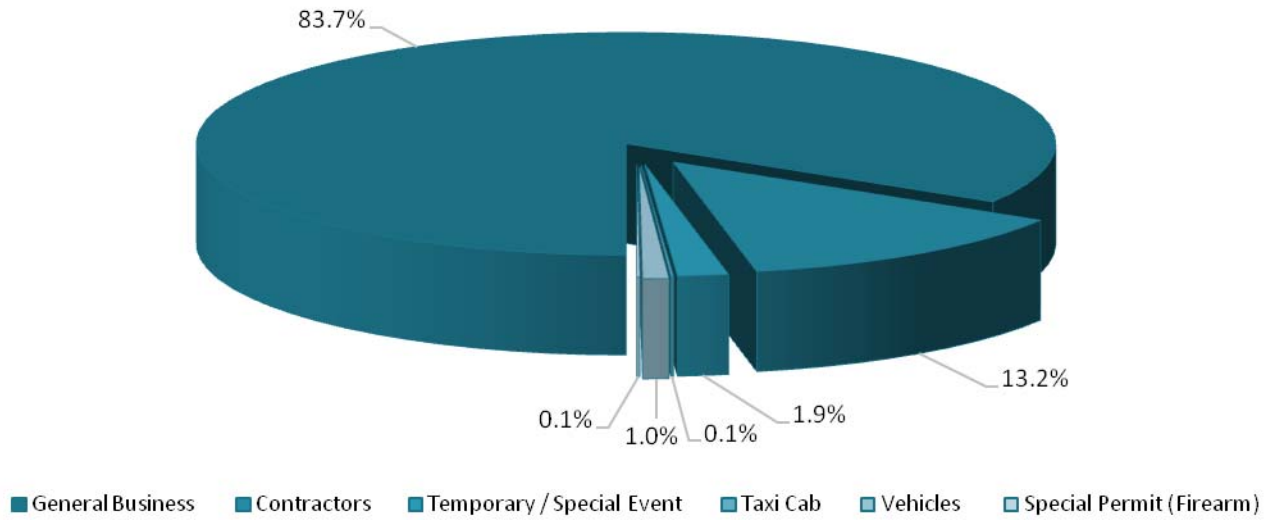
Category	Business Tax Rate	Number of Businesses	Total Business Tax Revenue
General Business	\$0 - \$200	9,027	\$736,900.00
Contractors	\$50	2,318	\$115,800.00
Temporary / Special Event	\$25 - \$7,240	17	\$16,732.00
Taxi Cab	\$50	17	\$850.00
Vehicles	\$25 - \$350	212	\$8,635.00
Special Permit (Firearm)	\$25 - \$200	9	\$1,035.00
Tax Exempt	\$0	112	\$0.00
Total Business Tax Revenue >		11,712	\$879,952.00

TABLE (B) City of Costa Mesa - Current General Business Category with a \$200 Maximum Tax

Gross Receipt Range	Business Tax Rate	Number of Businesses	Percentage of Total Pool	Average Gross in Range
\$0 to \$1,000	\$0.00	605	6.7%	\$199.00
\$1,000.01 to \$25,000.00	\$25.00	2,057	22.8%	\$15,945.00
\$25,000.01 to \$40,000.00	\$35.00	701	7.8%	\$30,301.00
\$40,000.01 to \$75,000.00	\$45.00	1,092	12.1%	53,827.00
\$75,000.01 to \$200,000.00	\$60.00	1,381	15.3%	\$124,642.00
\$200,000.01 to \$500,000.00	\$100.00	1,094	12.1%	\$323,590.00
Over \$500,000.00	\$200.00	2,097	23.2%	\$13,464,080.00
General Business / Gross Receipts Totals >		9,027	100.0%	\$2,001,798.00



Revenue by Tax Type



- \$0 to \$1,000
- \$1,000.01 to \$25,000.00
- \$25,000.01 to \$40,000.00
- \$40,000.01 to \$75,000.00
- \$75,000.01 to \$200,000.00
- \$200,000.01 to \$500,000.00
- Over \$500,000.00

General Business Category by Gross Receipts Range



Tax Classification System

The Tax Classification System separates businesses into categories based on business activities. Businesses may fall in to one or many classification depending on their business types and the activities they conduct in the City of Costa Mesa. Some taxation methodologies such as gross receipts are better suited to handle multiple tax classifications. Typically 75%-85% of businesses fall into one primary “General Business” classification. In many cases, for the purpose of taxation, classifications may be grouped together, especially when tax rates are similar.

1. Retail Sales

The Retail Sales classification includes the City’s basic retail establishments. This classification typically includes any business activity where the business sells goods, wares, merchandise, etc. at retail.

Number of Businesses	2,242	
Number of Businesses at the Maximum Tax (Cap)	885	39.5%
Average Gross Receipts / Average Business Tax	\$2,074,468	\$110.24

2. Wholesale / Manufacturing

Wholesale activity classification is typically a business to business activity where the goods, merchandise, wares, etc. are sold to those who intend to resell. This category is typically treated similarly to retail. Manufacturers are typically defined as those businesses that manufacture, produce, package goods, etc.

Number of Businesses	379	
Number of Businesses at the Maximum Tax (Cap)	176	46.4%
Average Gross Receipts / Average Business Tax	\$5,223,122	\$123.75

3. Service

The Service classification covers personal services, repairs, rentals, etc. This category covers all service related business not otherwise classified by the City. For example, a doctor or accounting firm would fall under the service category if the City chose not to have a classification for Professionals.

Number of Businesses	4,824	
Number of Businesses at the Maximum Tax (Cap)	703	14.6%
Average Gross Receipts / Average Business Tax	\$1,220,024	\$63.46

4. Professionals

The Professionals classification includes those businesses providing professional type services such as doctors, lawyers, and accountants. This classification typically includes any business where a professional license is issued and regulated by the state.

Number of Businesses	525	
Number of Businesses at the Maximum Tax (Cap)	171	32.6%
Average Gross Receipts / Average Business Tax	\$2,163,763	\$107.71



5. Property Rental

The Property Rental classification are those that rent, lease, sublet, etc. residential and commercial based property including raw land, buildings, office space, billboards, parking lots, or any part thereof. Except in the case of subletting, this classification usually only includes the owner of the real property.

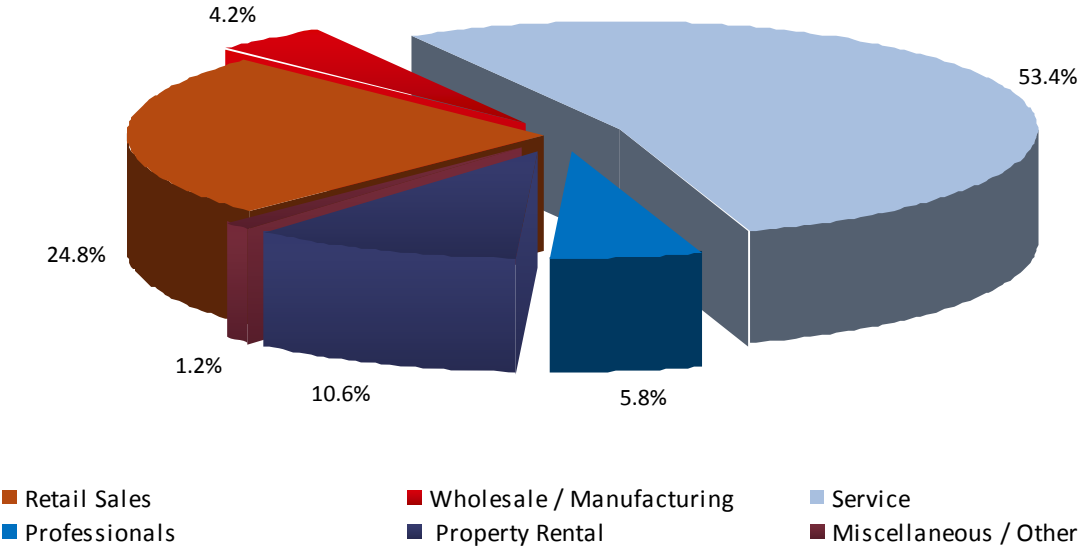
Number of Businesses	953	
Number of Businesses at the Maximum Tax (Cap)	131	13.7%
Average Gross Receipts / Average Business Tax	\$372,310	\$73.91

6. Miscellaneous / General Business

While almost all business activities will fall under one of the above classifications, it is important to have this “catch all” classification. Businesses structures and activities change over time and tax codes typically do not. This classification provides a safety net for cities when businesses change or when a unique business activity is conducted by a newly established business.

Number of Businesses	104	
Number of Businesses at the Maximum Tax (Cap)	31	29.8%
Average Gross Receipts / Average Business Tax	\$831,745	\$93.65

General Business Category by Activity



Common Methods of Business License Taxation

There are four (3) primary taxation methods used by the municipalities throughout California including the Cities surveyed for this report. The primary business tax structures commonly used are Gross Receipts, Number of Employees, and Flat Fee. These methods can be used exclusively, or may be combined to form more of a hybrid approach to taxation. The four methods are outlined below:

Gross Receipts

Taxation of gross receipts is one of the most common methods of business taxation in California. Since it is a widely used taxation method, there are many clearly established guidelines for what constitutes gross receipts and it is a familiar method to businesses. While more complex in some ways than other methods, Gross Receipts taxation does provide a simple and easy means to define an apportionment strategy which is required for all local business taxes. This is also helpful when allocating gross receipts between different classifications.

While revenues from a gross receipts tax can fluctuate more than other models, the potential for growth is a benefit for the City and businesses receive a reprieve when sales are down. Gross Receipts can be calculated based on a percentage or a flat fee with a sliding scale. MuniServices recommends this taxation method be the primary method used due to its ease to facilitate both from the City perspective and the business community.

Gross receipts are typically defined as the total revenue generated by a business before any deductions, allowances, and discounts. For a retail establishment, gross receipts are the total of all sales. Gross receipts for a service or professional based business are the total amount charged and received for services performed.

Number of Employees

In lieu of Gross Receipts, municipalities will often utilize employee counts as a basis for taxation. It is simple to calculate and administer. However, this method does prove difficult when attempting to do apportionment or allocation. In some cases Cities and businesses are faced with the challenge of breaking down number of hours per employee, per project, and per jurisdiction. This complicates the tracking on the business side and proves difficult to audit from the administration side. Employee count taxation methods also can be viewed in a negative light when considering economic development and business attraction strategies that tend to focus on appealing to large employers.

Employee counts typically fluctuate less than gross receipts and therefore, while not as stable as a flat fee, can provide for an easier budgeting process than gross receipts. There are a number of methods available to determine annual employees count. One example is to use the total number of hours worked during the year for all employees and dividing that number by 2,080 (40 hours per week x 52 weeks). The final number is rounded to the nearest whole number to produce the total number of employees for a business in a given year.

Flat Fee

Flat fees are the simplest and easiest to administer of all the fee structures. This method prevents fluctuations in revenues and can be easier to forecast. However, Flat Fee structures can be regressive in nature, forcing businesses to pay the same fixed amount regardless of their size or income. As with other fixed rate methods, it does provide challenges when apportioning and allocating between classifications.

Costa Mesa - Recommended Tax Structure

The gross receipts based tax structure is the primary method recommended by MuniServices for the City of Costa Mesa. This structure provides the most efficient administration methods weighed against the needs to generate revenue while ensuring the tax does not approach a regressive state.

The current gross receipts scale method has been preserved to make the conversion process straightforward for the City and maintain continuity for a business community already familiar with the current table driven structure. The business tax rates established for specific scale of gross receipts range from less than ¼ of one mill to 1 mill. The rates set forth are less than the Cities in the comparative study that utilized this method of taxation.

These rates can also be applied to different classifications based upon industry standards. Retail, for example, can have a lower business tax rate than professionals due to lower profit margins and their abilities to generate sales tax revenues to the City.

Sample Taxation Structures

Using the methodologies outline above, MuniServices created sample rate tables that emulate the current gross receipts scale utilized by the City of Costa Mesa. The tables below are samples of how a tax structure would be organized and are not intended to reflect an actual approach.

TABLE (A-1) City of Costa Mesa – Revised General Business Category with a \$400 Maximum Tax – 1st Method

Gross Receipt Range	Business Tax Rate	Effective Mill Rate	Number of Businesses	Percentage of Total Revenue	Total Revenue
\$0 - \$1,000	\$0.00	.000	605	0.0%	\$0
\$1,000.01 - \$25,000.00	\$50.00	.002	2,057	7.0%	\$102,850
\$25,000.01 - \$40,000.00	\$70.00	.00175	701	3.3%	\$49,070
\$40,000.01 - \$75,000.00	\$90.00	.0012	1,092	6.7%	\$98,280
\$75,000.01 - \$200,000.00	\$120.00	.0006	1,381	11.2%	\$165,720
\$200,000.01 - \$500,000.00	\$200.00	.0004	1,094	14.8%	\$218,800
\$500,000.01 +	\$400.00	-	2,097	56.9%	\$838,800
Total General Business Category >			9,207	100%	\$1,473,520



TABLE (A-2) City of Costa Mesa – Revised General Business Category with a \$400 Maximum Tax – 2nd Method

Gross Receipt Range	Business Tax Rate	Effective Mill Rate	Number of Businesses	Percentage of Total Revenue	Total Revenue
\$0 - \$25,000.00	\$25.00	.001	2662	4.2%	\$66,550
\$25,000.01 - \$50,000.00	\$50.00	.001	1,256	4.0%	\$62,800
\$50,000.01 - \$100,000.00	\$100.00	.001	1,130	7.2%	\$113,000
\$100,000.01 - \$200,000.00	\$200.00	.001	788	10.1%	\$157,600
\$200,000.01 - \$500,000.00	\$300.00	.0006	1,094	20.9%	\$328,200
\$500,000.01 +	\$400.00	-	2,097	53.5%	\$838,800
Total General Business Category >			9,207	100%	\$1,566,950

TABLE (B) City of Costa Mesa – Revised General Business Category with a \$2,000 Maximum Tax

Gross Receipt Range	Business Tax Rate	Effective Mill Rate	Number of Businesses	Percentage of Total Revenue	Total Revenue
\$0 - \$50,000	\$50.00	.001	3,918	7.4%	\$195,900
\$50,000.01 - \$100,000.00	\$100.00	.001	1,130	4.2%	\$113,000
\$100,000.01 - \$500,000.00	\$250.00	.0005	1,882	17.7%	\$470,500
\$500,000.01 - \$1,000,000.00	\$500.00	.0005	1,019	19.1%	\$509,500
\$1,000,000.01 - \$5,000,000.00	\$1,000.00	.0002	781	29.3%	\$781,000
\$5,000,000.01 +	\$2,000.00	-	297	22.3%	\$594,000
Total General Business Category >			9,207	100%	\$2,663,900



TABLE (C) City of Costa Mesa – Revised General Business Category with a \$5,000 Maximum Tax

Gross Receipt Range	Business Tax Rate	Effective Mill Rate	Number of Businesses	Percentage of Total Revenue	Total Revenue
\$0 - \$50,000	\$50.00	.001	3,918	5.7%	\$195,900
\$50,000.01 - \$100,000.00	\$100.00	.001	1,130	3.3%	\$113,000
\$100,000.01 - \$500,000.00	\$350.00	.0007	1,882	13.7%	\$470,500
\$500,000.01 - \$1,000,000.00	\$600.00	.0006	1,019	14.8%	\$509,500
\$1,000,000.01 - \$5,000,000.00	\$1,500.00	.0003	781	22.7%	\$781,000
\$5,000,000.01 - \$10,000,000.00	\$2,500.00	.00025	152	8.8%	\$304,000
\$10,000,000.01 - \$25,000,000.00	\$4,000.00	.00016	77	11.2%	\$308,000
\$25,000,000.01 +	\$5,000.00	-	68	19.8%	\$340,000
Total General Business Category >			9,207	100%	\$3,021,900

TABLE (D) City of Costa Mesa – Revised General Business Category with a \$10k Maximum Tax

Gross Receipt Range	Business Tax Rate	Effective Mill Rate	Number of Businesses	Percentage of Total Revenue	Total Revenue
\$0 - \$50,000	\$50.00	.001	3,918	5.7%	\$195,900
\$50,000.01 - \$100,000.00	\$100.00	.001	1,130	3.3%	\$113,000
\$100,000.01 - \$500,000.00	\$250.00	.0005	1,882	13.7%	\$470,500
\$500,000.01 - \$1,000,000.00	\$500.00	.0005	1,019	14.8%	\$509,500
\$1,000,000.01 - \$5,000,000.00	\$1,000.00	.0002	781	22.7%	\$781,000
\$5,000,000.01 - \$10,000,000.00	\$2,000.00	.0002	152	8.8%	\$304,000
\$10,000,000.01 - \$25,000,000.00	\$5,000.00	.0002	77	11.2%	\$385,000
\$25,000,000.01 +	\$10,000.00	-	68	19.8%	\$680,000
Total General Business Category >			9,207	100%	\$3,438,900



Business Tax Survey

Background

The City of Costa Mesa is interested in identifying the “best practices” utilized by other local agencies that administer and collect a business tax. MuniServices also examined the business tax programs established in surrounding municipalities. The selection criteria exclusively focused on Cities with a business tax established for revenue generation. MuniServices assembled information on tax rates and general practices employed in the following cities:

- Huntington Beach
- Irvine
- Newport Beach
- Orange
- Santa Ana

Data Procurement Process

To obtain the information necessary to generate this report, MuniServices makes use of a variety of resources and data. This included a series of telephone interviews with the City’s business tax department, ordinance reviews, and examination of business tax data contained in MuniServices’ data warehouse.

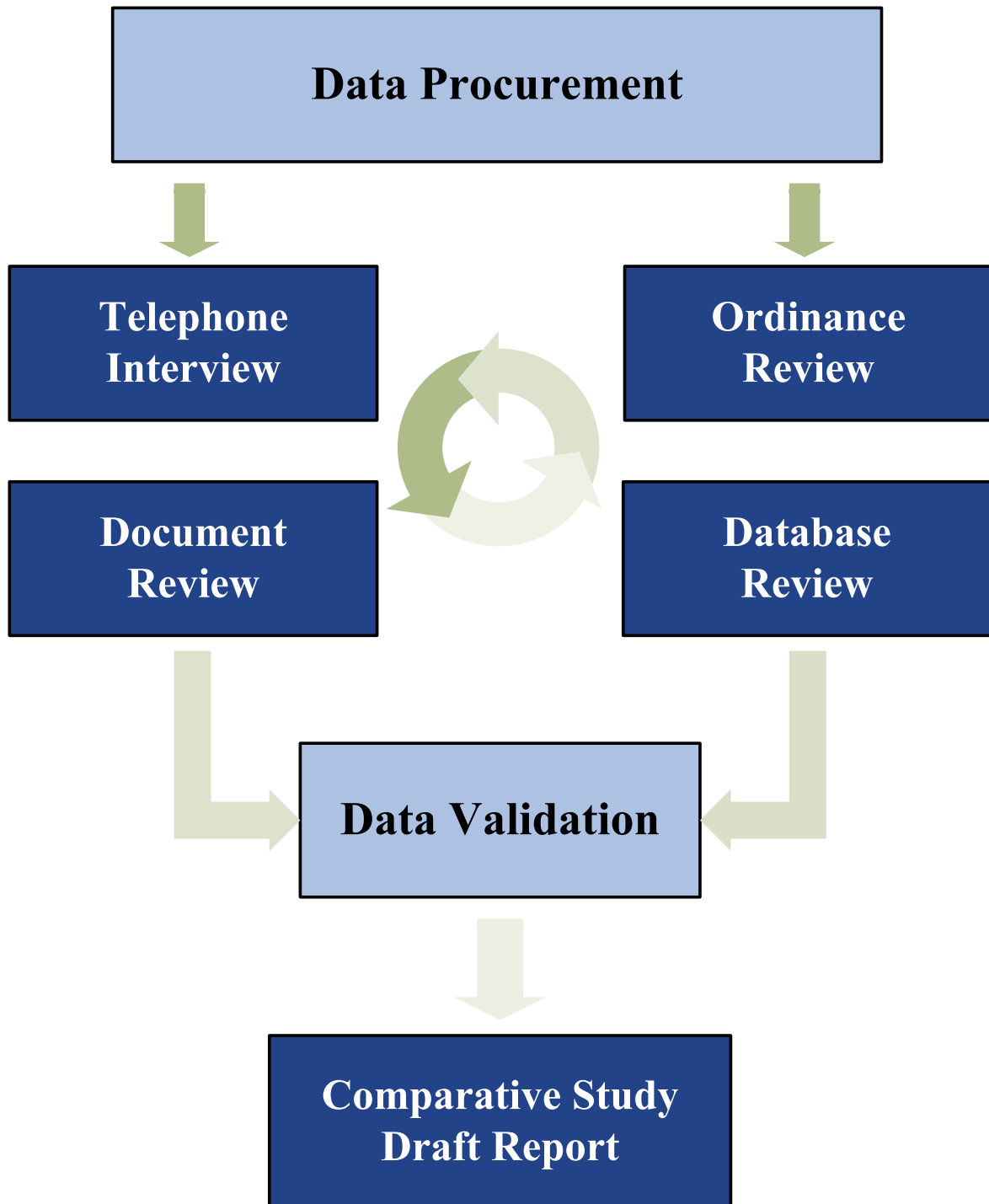
Data Validation

To the extent possible, MuniServices validated the data it used to create this report. In some instances, MuniServices used information supplied by third parties or obtained the information directly from the City by conducting a telephone interview.

Study Background

Simply stated, at this phase of the project MuniServices surveyed and analyzed the business taxes utilized by other local agencies to identify “best practices.” The City of Costa Mesa selected cities based on proximity and those with a comparable population. MuniServices surveyed these taxation authorities in an attempt to understand their current processes and taxation methods.

Comparative Study Process



Business Tax by Municipality

Method of Taxation

	GROSS RECEIPTS	EMPLOYEE	NUMBER OF UNITS	FLAT	MAXIMUM TAX
Costa Mesa	X			X	Yes = \$200
Huntington Beach		X	X	X	No
Irvine				X	Yes = \$50
Newport Beach		X	X	X	Yes = \$777 -or- \$1,555
Orange	X			X	N
Santa Ana	X			X	N

Business Tax: Yearly Averages

	ANNUAL REVENUE	% OF GENERAL FUND	NUMBER OF ACCOUNTS	AVERAGE BUSINESS TAX
Costa Mesa	\$879,952	0.75%	11,712	\$75.13
Huntington Beach	\$2,241,246	1.23%	21,118	\$106.13
Irvine	\$965,696	0.69%	18,432	\$52.39
Newport Beach	\$4,056,034	2.68%	16,773	\$241.82
Orange	\$2,177,936	1.36%	21,848	\$99.69
Santa Ana	\$9,848,692	4.69%	28,114	\$350.31

City Demographics: Average Population

	POPULATION	BUSINESS TAX PER CAPITA
Costa Mesa	110,150	\$7.99
Huntington Beach	190,380	\$11.77
Irvine	219,160	\$4.41
Newport Beach	85,380	\$47.51
Orange	136,990	\$15.90
Santa Ana	325,230	\$30.28

Sales Tax Comparison 1 (Revenue Generated by Economic Category)

Category	Costa Mesa	Huntington Beach	Irvine	Newport Beach	Orange	Santa Ana
General Retail	49.4%	23.2%	24.9%	29.2%	18.8%	24.9%
Food Products	13.9%	20.7%	15.5%	26.0%	14.8%	16.4%
Transportation	22.8%	27.2%	20.6%	27.6%	22.7%	25.7%
Construction	3.8%	7.1%	5.4%	0.9%	8.9%	11.2%
Business to Business	9.1%	21.1%	32.2%	15.4%	33.9%	20.7%
Miscellaneous	1.1%	0.6%	1.5%	1.0%	0.9%	1.1%

Sales Tax Comparison 2 (Total Number of Accounts by Economic Category)

Category	Costa Mesa	Huntington Beach	Irvine	Newport Beach	Orange	Santa Ana
General Retail	6,586	3,933	3,178	2,566	2,249	3,146
Food Products	831	963	1,097	652	910	1,509
Transportation	798	622	345	169	606	1,002
Construction	271	238	235	91	262	388
Business to Business	2,029	1,831	2,935	1,001	1,592	2,186
Miscellaneous	1,606	853	575	438	443	909
TOTAL >	12,121	8,440	8,365	4,917	6,062	9,140

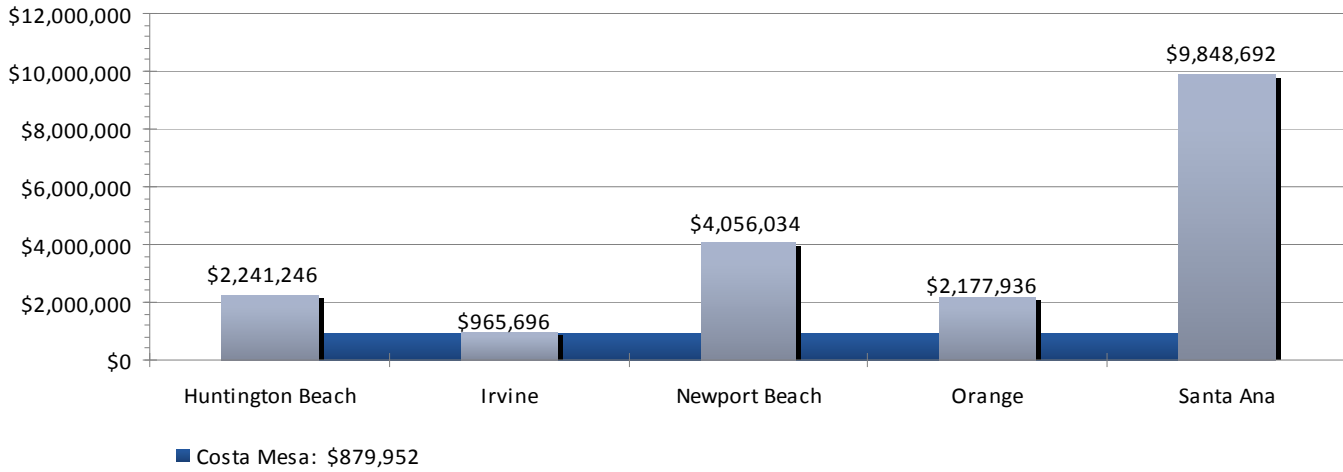


Quick Summary (City Comparison)

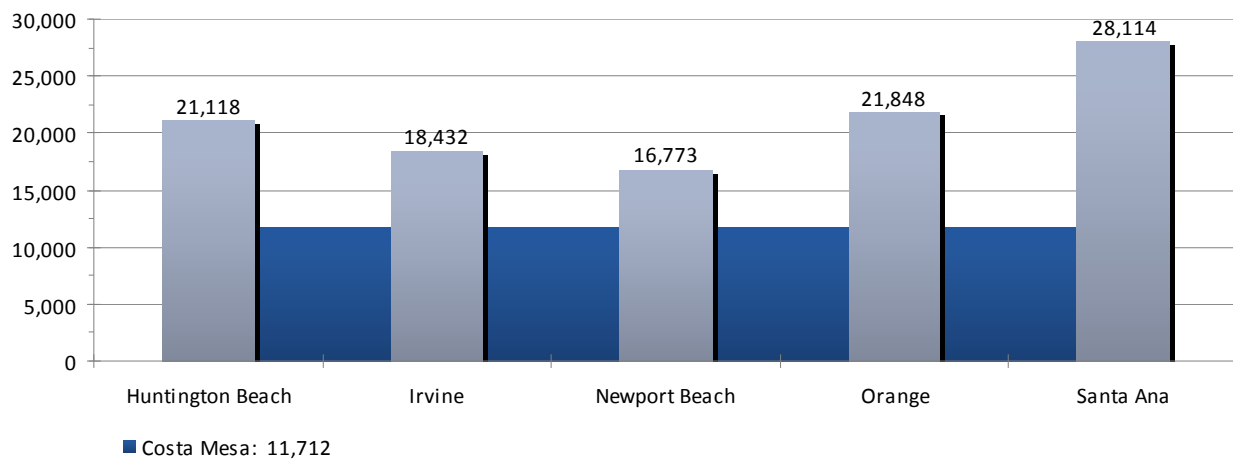
	Costa Mesa	Huntington Beach	Irvine	Newport Beach	Orange	Santa Ana
Method of Taxation	Gross Receipts Flat Fee	Employee Flat Fee	Flat Fee	Employee Flat Fee	Gross Receipts Flat Fee	Gross Receipts Flat Fee
Average Annual Revenue	\$879,952	\$2,241,246	\$965,696	\$4,056,034	\$2,177,936	\$9,848,692
Average Number of Accounts	11,712	21,118	18,432	16,773	21,848	28,114
Average Population	110,150	190,380	219,160	85,380	136,990	325,230
Delinquent Penalty Rate & Late Fees	10% per month Not to exceed 50%	10% of the Total Tax Due	Flat Rate of \$25 for each year the Tax is Past Due	10% Per Quarter Late Max. 100%	25% per month Max. 100%	25% per month Max. 100%
Additional Comments	Gross Receipts with a Maximum \$200 Business Tax	Residential Rental Based on 3 or More Rental Units	Businesses with Gross Receipts under \$4000 pay only \$25	Employee rates vary for In / Out of Town and if the business has a resale permit	Non-compliance fee of \$50 is added after 3+ months delinquent	Mill Rate Gross Receipt Business Tax



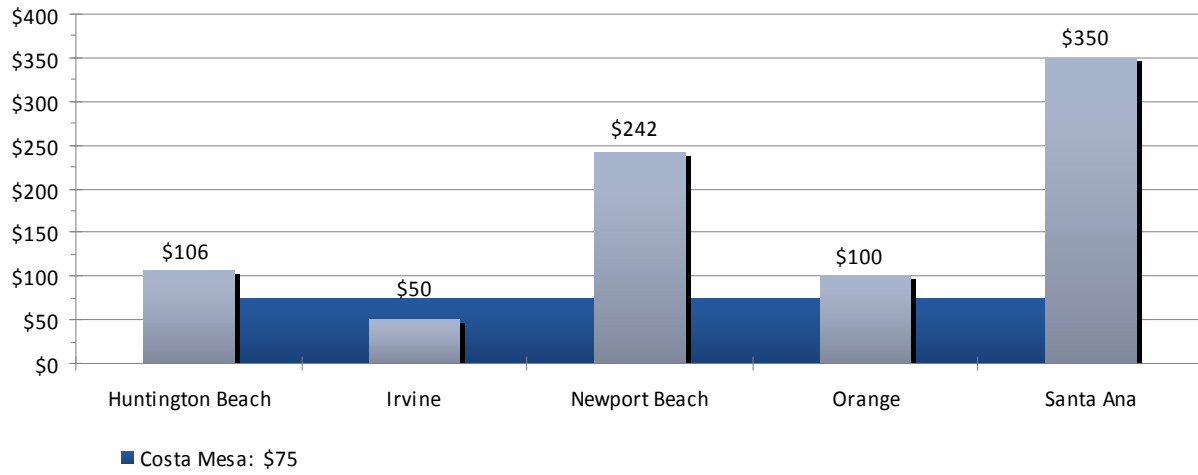
City Comparison - Business Tax Revenue: Yearly Average



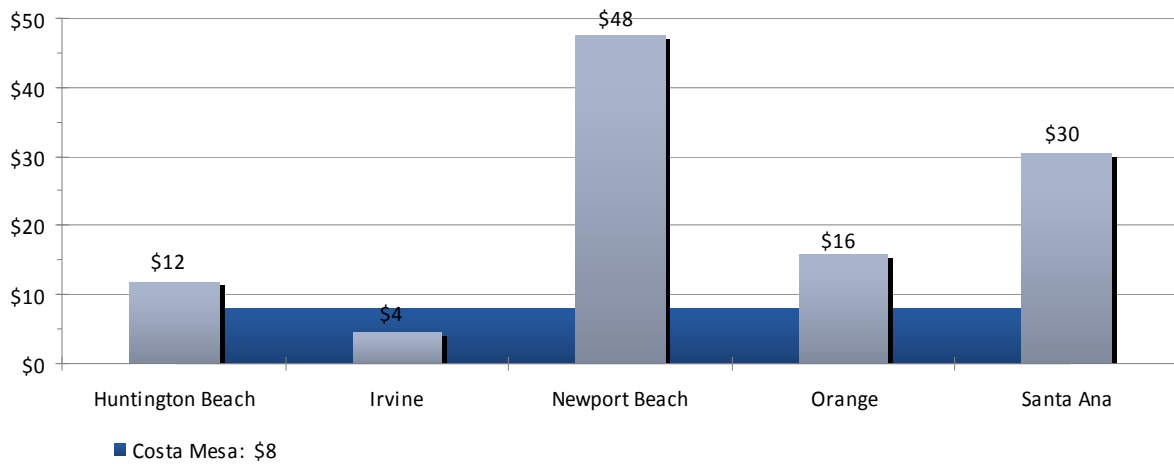
City Comparison - Number of Business Tax Accounts: Yearly Average



City Comparison - Average Business Tax Paid



City Comparison - Average Business Tax Per Capita



Municipality Overview



The City of Huntington Beach

Located in Orange County, the City of Huntington Beach is approximately 7 miles from the City of Costa and was incorporated in 1909. On average there are 21,000 business tax accounts issued by the City with approximately \$2.2 million in total annual revenue. The City collects a business license tax for doing business within the city limits and is solely to raise revenue for municipal purposes. The annual business tax renewal period is based on the start date of the individual business. For example, a business that begins operations in 10/01/2008 would expire on 09/30/2009. A penalty rate of 10% of the tax is applied to any business that operates without first obtaining a Business License or which fails to pay their renewal fee by the due date.

The primary two methods of taxation used in the City of Huntington Beach are the flat or minimum business tax with a variable rate that is based on the average number of employees. Typically, for businesses that operate with 3 or less employees would only pay the base or minimum \$75 business tax. For this reason, Huntington Beach often refers to their business tax as a "flat tax."

Flat rate rates also apply to businesses without a fixed location in the City and special event or temporary activities conducted in the City like swap meets and auctions. General contractors without a fixed place of business within the City pay a slightly higher flat rate than the businesses that operate within the jurisdiction.

The following types of businesses are exempt from obtaining a business tax license in the City of Huntington Beach:

- Charitable, Non-Profit, and Religious Organizations
- Businesses that are regulated by the Interstate Commerce Commission
- Disabled Veterans
- Real Estate Agents (where a Broker holds their license issued by the California Department of Real Estate)

The primary business tax rate schedule for the City of Huntington Beach is shown in the table below.

Category	Base Tax	Variable Rate
<p><u>GENERAL BUSINESS</u> Includes - Abstractor of Titles, Accountant, Accounting Service, Advertising Agent, Agricultural Advisor or Counselor, Appraiser, Architect, Assayer, Attorney, Auctioneer, Auditor, Bacteriologist, Bail Bond Broker, Barber Shop, Beauty Shop, Business Management Consultant, Certified Public Accountant, Chemical Engineer, Chemical Engineer, Chemist, Child Nurseries (9 children or more), Chiropodist, Chiropractor, Civil Engineer, Claim Adjuster, Construction Engineer, Consulting Engineer, Dancing Academy, Dealers in Stocks and other Securities, Dental Laboratory, Dentist, Designer, Detective Agency, Draftsman, Drugless Practitioner, Electrical Engineer, Electrologist, Employment Agency, Fine Arts or Music School, Geologist, Herbalist, Industrial Relations Consultant, Insurance Adjuster, Interior Decorator, Investment Counselor, Labor Relations Consultant, Landscape Architect, Lapidary, Mechanical Engineer, Mortician, Naturopath, Oculist, Optician, Optometrist, Oral Surgeon, Orchard Care, Osteopath Physician, Physician, Private Home for the Aged (7 persons or more), Real Estate Broker, Real Estate Office, Surgeon, Surveyor, Taxidermist, Trade or Business School, Tree Remover, Tree Trimming, and Veterinarian.</p>	<p>\$75.00</p>	<p>First (3) employees + \$4.00 per employee (4 to 12 employees) + \$3.00 per employee (13 to 52 employees) + \$2.00 per employee (53 or more employees)</p>
<p><u>OUT OF CITY CONTRACTORS</u> General Engineering and/or General Building Contractor Specialty, Subcontractor, or Other</p>	<p>\$142.50 \$90.00</p>	<p>Annual Fee Annual Fee</p>





The City of Irvine

Located in Orange County, the City of Irvine is approximately 10 miles from the City of Costa and was incorporated in 1971. On average there are 18,000 business tax accounts issued by the City with approximately \$970,000 in total annual revenue. The annual business tax renewal period take place on a calendar year basis. The business tax license or certificate is valid from January 1st and expires on December 31st of that same year.

All home and commercial based businesses are taxed on a flat \$50 rate; however, businesses with annual gross receipts of less than \$4,000 pay a flat \$25 tax. Irvine has the lowest average business tax of all the Cities surveyed followed by Costa Mesa

Over 75 large corporations are headquartered in the City of Irvine and each pay a \$50 flat business tax rate. These include well-known companies like Broadcom, In-N-Out Burgers, Gateway, Mazda Motor Company of North American, Taco Bell, Verizon Wireless, and Western Digital.

The primary business tax rate schedule for the City of Irvine is shown in the table below.

Category	Tax	Variable
All Businesses	\$50.00	Annual Gross Receipts > \$4,000
	\$25.00	Annual Gross Receipts ≤ \$4,000





The City of Newport Beach

The City of Newport Beach is approximately 3 miles from the City of Costa and was incorporated in 1906. On average there are 16,700 business tax accounts issued by the City with approximately \$4.0 million in total annual revenue. The City collects a business license tax solely to raise revenue for municipal purposes. The annual business tax renewal period is based on the start date or “anniversary date” from when the license was first issued. A penalty rate of 25% of the tax is applied to any business that operates without first obtaining a Business License or which fails to pay their renewal fee by the due date. Penalties are not to exceed 100% of the taxes due.

The City of Newport Beach requires a base tax for all businesses operating in the City. Depending on where the business operates the base rates will vary. The base tax is adjusted annually by use of the Consumer Price Index (CPI).

In addition to the base rate, In-Town businesses operating at a commercial location will also pay a variable rate that is based on the total number of W2 employees. Newport Beach has a two-tiered “per employee” rate that is coupled with the collection of sales tax within the City limits. Businesses that do not collect and remit sales tax in Newport Beach pay a higher per employee rate than businesses that have an active sales tax permit with the State.

There is a maximum tax or cap for all business operating at a commercial location within the City limits. The maximum tax is also dependent on the business collecting and remitting sales tax within the jurisdiction. Businesses that hold a sellers (resale) permit with the State Board of Equalization and operate from a commercial location within the City pay a maximum business tax of \$777, compared to \$1,555 for those businesses with no sales tax activity.

Out of Town and residential (home based) businesses pay only the base tax. In addition, the City charges a base tax for any business using a City of Newport Beach address or Post Office box to receive business related mail.

The primary business tax rate schedule for the City of Newport Beach is shown in the table below.

Location Type	Base Tax	Variable	Maximum Tax
In-Town Commercial / Collects Sales Tax	\$155.00	\$8.00 per each W2 Employee	\$777.00
In-Town Commercial / No Sales Tax Collected	\$155.00	\$16.00 per each W2 Employee	\$1,555.00
Residential (Home Based)	\$144.00	N/A	N/A
Out-of-Town Based	\$233.00	N/A	N/A
Post Office Box / Mail Receiving Agency	\$155.00	N/A	N/A





The City of Orange

The City of Orange is approximately 12 miles from the City of Costa and was incorporated in 1888. On average there are 21,800 business tax accounts issued by the City with approximately \$2.2 million in total annual revenue. The City collects a business license tax solely to raise revenue for municipal purposes. The annual business tax renewal period is based on the start date of the individual business.

The City of Orange requires all businesses conducting business within the City limits to obtain an annual business license. The business tax in the City of Orange is primarily based on gross receipts; however, there are some businesses taxed at a flat rate. Gross Receipt business tax rates are based on a predefined scale or table, where tax rates are defined in a tiered range of gross receipts. The table driven “stepped gross receipts” calculations utilized by Orange is one of the more common methods used to perform receipts calculations.

If a business or person engages in the same activity in two or more locations in the City of Orange, each location or entity is taxed separately. Every person or businesses conducting business from a fixed place of business is taxed under the general business gross receipts rate unless a separate category or classification has been established for that business. There is a \$46 non-refundable processing fee for every new license issued by the City.

The primary business tax rate schedule for the City of Orange is shown in the table below.

Category	Tax	Variable
Retail Sales / General Business Defined as any person conducting, managing or carrying on the business consisting mainly of selling at retail any goods or conducting and maintaining a recreation park or amusement center under one general management, or conducting, managing or carrying on any trade, occupation, calling or business not otherwise specifically taxed by other sections.	\$35.00	First \$30,000 of Gross Receipts (Minimum Tax)
	\$50.00	Over \$30,000, less than \$50,000 of Gross Receipts
	\$75.00	Over \$50,000, less than \$75,000 of Gross Receipts
	\$100.00	Over \$75,000, less than \$100,000 of Gross Receipts
	\$125.00	Over \$100,000, less than \$150,000 of Gross Receipts
	\$135.00	Over \$150,000, less than \$200,000 of Gross Receipts
	\$155.00	Over \$200,000, less than \$300,000 of Gross Receipts
	\$175.00	Over \$300,000, less than \$400,000 of Gross Receipts
	\$195.00	Over \$400,000, less than \$500,000 of Gross Receipts
	+ \$20.00	For each additional \$100,000 or fraction over \$500,000



Professionals Defined as any every person who engages in any business of a professional nature within the City, where the principal business activity is the furnishing of services.	\$35.00	First \$20,000 of Gross Receipts (Minimum Tax)
	\$50.00	Over \$20,000, less than \$40,000 of Gross Receipts
	\$65.00	Over \$40,000, less than \$60,000 of Gross Receipts
	\$80.00	Over \$60,000, less than \$100,000 of Gross Receipts
	+ \$15.00	For each additional \$25,000 or fraction over \$100,000
Wholesale Business Defined as any business conducting, managing or carrying on the business consisting mainly of manufacturing, packing, processing, storing, warehousing, or selling at wholesale any goods, wares, merchandise or produce.	\$25.00	First \$25,000 of Gross Receipts (Minimum Tax)
	\$60.00	\$25,001 to \$100,000 of Gross Receipts
	\$75.00	\$100,001 to \$200,000 of Gross Receipts
	\$100.00	\$200,001 to \$300,000 of Gross Receipts
	\$125.00	\$300,001 to \$400,000 of Gross Receipts
	\$150.00	\$400,001 to \$500,000 of Gross Receipts
	\$200.00	\$500,001 to \$1,000,000 of Gross Receipts
	\$250.00	\$1,000,001 to \$2,000,000 of Gross Receipts
	\$300.00	\$2,000,001 to \$3,000,000 of Gross Receipts
	+ \$50.00	For each additional \$100,000 or fraction over \$5,000,000





The City of Santa Ana

The City of Santa Ana is approximately 15 miles northeast of Coast Mesa and was incorporated in 1886. Santa Ana is the largest of the Cities surveyed in terms of the number of registered businesses and population. On average there are 28,000 business tax accounts issued by the City with approximately \$9.8 million in total annual revenue. Business taxes in Santa Ana are solely to raise revenues for municipal purposes. The annual business tax renewal period takes place on a calendar year basis. The business tax license or certificate is valid from January 1st and expires on December 31st of that same year.

The business tax in Santa Ana is primarily based on gross receipts. Gross Receipt business tax rates are calculated on a standard mill rate or percentage approach. Gross Receipt tax rates are established in a predefined scale, where the tax mill rates are defined in a tiered range of gross receipts. Gross receipts are simply multiplied by the determined tax rate in order to arrive at the tax amount due. The mill rate or percentage decreases as Gross Receipts increase. There is no cap on business tax once the lowest mill rate is reached.

Flat rate rates apply to businesses without a fixed location in the City and special event or temporary activities conducted in the City like swap meets and auctions. There is a \$29 non-refundable registration fee for every new license issued by the City.

The primary business tax rate schedule for the City of Santa Ana is shown in the table below.

Category	Base Tax	Variable
Category 1 Defined as Retail Sales, Receipts from Business or Personal Services, Receipts from Commercial Property Rental, Administrative Facilities	\$117.00	+ \$0.98 per \$1,000 up to \$195,000 in Gross
	\$117.00	+ \$0.59 per \$1,000 up to \$975,000 in Gross
	\$117.00	+ \$0.39 per \$1,000 up to \$1,950,000 in Gross
	\$117.00	+ \$0.29 per \$1,000 up to \$1,950,000 + in Gross
Category 2 Defined as Manufacturing, Processing Wholesale Business, Sales at Wholesale, Sales of Gasoline and Motor Fuels, and Telephone Company Services	\$117.00	+ \$0.59 per \$1,000 up to \$195,000 in Gross
	\$117.00	+ \$0.49 per \$1,000 up to \$585,000 in Gross
	\$117.00	+ \$0.39 per \$1,000 up to \$1,170,000 in Gross
	\$117.00	+ \$0.29 per \$1,000 up to \$1,950,000 + in Gross
	\$117.00	+ \$0.20 per \$1,000 up to \$1,950,000 + in Gross

