



# ***CITY COUNCIL AGENDA REPORT***

---

MEETING DATE: JUNE 4, 2013

ITEM NUMBER:

**SUBJECT: DIRECT THE FINANCE ADVISORY COMMITTEE TO STUDY THE CITY'S CURRENT BUSINESS LICENSE TAX STRUCTURE**

**DATE: MAY 28, 2013**

**FROM: FINANCE DEPARTMENT**

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

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

---

## **RECOMMENDATION**

Provide direction to the Financial Advisory Committee to study the City's business license tax structure.

## **BACKGROUND/ANALYSIS**

At the April 30, 2013 Finance Advisory Committee meeting, it was ajenized and discussed to have the Committee review the City's current business license tax structure. However, the Committee felt it should receive direction from City Council before proceeding with that type of study and analysis.

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.

If the Finance Advisory Committee were to study the business license tax structure, it could provide its findings and a recommendation to the City Council for consideration to change the tax structure for a future general election.

The City first adopted a Business License Tax by establishing 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. "

To date, the Business License Tax structure has not been amended or modified.

**FISCAL REVIEW**

No fiscal impact.

**LEGAL REVIEW**

Not required.

**RECOMMENDATION**

Staff is recommending the City Council direct the Financial Advisory Committee to study the City's business license tax structure.

  
BOBBY YOUNG  
Finance & I.T. Director

RECEIVED  
CITY CLERK

2012 JUL 16 PM 12: 24

CITY OF COSTA MESA  
BY \_\_\_\_\_

July 16, 2012

Mayor Eric Bever  
Costa Mesa City Council  
77 Fair Drive  
Costa Mesa, CA 92626

RE: Business License Tax

Dear Mayor Bever and City Council Members:

On behalf of the Board of Directors of the Costa Mesa Chamber of Commerce I want to express our views on the business license fee, an issue that the Chamber has been commenting on and encouraging attention to for a number of years. It is unfortunate that solutions to this important matter are only examined in "short bursts" of time before ballot deadlines rather than between impacted parties over a longer period in order to create real solutions and thoughtfully address business and City concerns. This would lessen the politicizing of the issue, especially in a distressed economy, which should dictate no tax increases.

Rushing to patch together a revised tax structure, an example of which was advanced by City staff, could be very damaging to businesses still hanging on in what is still a horrendous economy. It would also be extraordinarily unfair to businesses with large sales volumes, since that does not always translate into a large margin of profit for the business, as pointed out by Councilman Mensinger. Additionally, some of these businesses already generate significant sales tax revenue for the City. It seems counterintuitive to penalize these retailers for successfully feeding the general fund considerable millions of dollars of revenue every year.

Similarly, throwing together a different method of calculating a business license tax, based on employment volume, simply because another city is doing so and without allowing for appropriate input and weigh in by businesses, is fraught with unforeseen inequities. Taxing in increasing levels based on the number of employees implies that job creation is a bad thing. If that is the case, why are we concerned about high levels of unemployment? Every working employee means more people spending, paying taxes and supporting themselves and all parts of our community. Please do not demonize large employers. And for those generally opposing new taxes, how do you justify a position of changing the formula in order to gain more tax revenue?

In addition to several state measures on the November ballot asking for voters to increase taxes on themselves, the Coast Community College District will have a new bond issue. Asking also for increased business license taxes at this time may be risky and put the College District Measure at risk as well.

Do these views mean there is not room for conversation to rethink and restructure the current business license tax? Not at all. The Chamber acknowledges that the current tax levels have not been changed since 1985 and that there may be a more equitable way to structure and administer the tax. But the Board of Directors of the Costa Mesa Chamber encourages the City Council: to not place any new tax measure on the November ballot; to encourage a long-term, constructive dialogue between business and the City for a restructured formula; and to consider a modest and periodic automatic adjustment based on an appropriate economic index.

Sincerely,

Ed Fawcett  
President/CEO