CITY OF PACIFIC GROVE
AGENDA REPORT

300 Forest Avenue, Pacific Grove, CA 93950

To:	Honorable Mayor and Members of the City Council
From:	Ben Harvey, City Manager
Meeting Date:	May 18, 2016
Subject:	Potential Revenue Opportunities
CEQA:	This action does not constitute a "project" as defined by the California Environmental Quality Act (CEQA) guidelines section 15378.

RECOMMENDATION
Continue discussion regarding potential revenue opportunities and provide direction to staff. Provide general direction to staff related to a proposed ballot measure for the November 2016 General Election no later than June 2016.

DISCUSSION
At the May 4, 2016 City Council meeting, the City Council discussed several different potential revenue opportunities, and directed staff to return with additional details and considerations for those potential revenue opportunities that require approval by the voters on a general election ballot.

<u>Potential revenue opportunities discussed by the City Council at the May 4, 2016 regular City Council meeting, and identified for future consideration:</u>

1. Incremental revenue through expanded economic development;
2. Incremental revenue through expanded or additional special events;
3. Implementation of an Admissions Tax;*
4. Increase Business License Tax;*
5. Expanding passive income measures, such as installing additional computer-based parking meters;
6. Exploring creative income measures, such as an honorary secondary street sign adoption program, and/or the sale of surplus historic street signs; and
7. Working to further increase cost recovery for selected municipal services to 100%.

*Denotes those potential revenue opportunities that require voter approval on a general election ballot.

The next general election is scheduled for November 8, 2016. Considering the threat of litigation for the proposed Admissions Tax, and in light of timing constraints for adding a ballot measure to the upcoming November 8, 2016 General Election, only the proposed revision to the Business License Tax increase is outlined below.

Currently, the Pacific Grove Municipal Code (PGMC) requires qualifying businesses to pay a minimum annual tax of $15.00, to a maximum annual tax of $3,000, based upon gross receipts. Certain types of businesses are exempt, and certain types of businesses are required to pay a minimum amount that is not based upon gross receipts.

PGMC section 7.04.220:

> 7.04.220 License tax – Gross receipts.
> Every person who engages in business within the city shall pay a license tax based upon gross receipts of the previous calendar year at the rate of one mill on each dollar of gross receipts, with a minimum annual tax of $15.00 and a maximum annual tax of $3,000. Any person on a fiscal-year basis may, with the consent of the collector, pay a license tax based upon gross receipts for that person's previous fiscal year. [Ord. 656 N.S. § 1, 1970].

The current business license provisions within the PGMC were established in 1970, when the ordinance was initially adopted. The mill rate is a notional unit equivalent to 1⁄1000 of a United States dollar (a one-hundredth of a dime, or a tenth of a cent). There has been no change to the minimum or maximum tax amounts since inception.

There are a number of methods to consider when discussing an increase in the business license tax. Some potential options include:

1. Increasing the minimum annual business license tax amount, as well as the maximum annual business license tax amount. This could be accomplished by applying a multiplier to bring these amounts current to 2016 levels from the existing levels, which were established in 1970. If considering this approach, the City could also ensure that the amounts going forward would remain current by applying an annual automatic consumer price index to both the minimum, as well as the maximum amounts.
2. Increasing the Business License Tax rate.
3. Changing the methodology for applying the business license tax, such as moving towards a flat percentage of gross receipts approach.
4. Revising the list of business types currently exempt from the business license tax.
5. A hybrid proposal incorporating various elements of the options outlined here.
6. Other options not outlined within this agenda report.

The City currently has 2041 active licenses (1,398 inside the City, 643 outside the City). In Fiscal Year 2014-15, total business license revenues were $327,463. Year to date business license revenues (through April 2016) are $310,234. The very preliminary numbers provided in

the table below, indicate the scope of some of the proposed options with regard to the Business License Tax. However, the City's business license management partner, Hinderliter de Lamas & Associates (HdL), is in the process of conducting an analysis of the current ordinance and the City's tax registration database. Data will be compiled on the number of businesses, current tax revenues received by City, categories, and other related information in order to provide an accurate baseline on proposed changes. HdL will also perform a comparative study of neighboring cities (HdL is currently working with the City of Marina on a similar ballot measure). Finally, HdL will provide the findings of its analysis with options for the Council to consider on June 15, 2016.

Potential increased revenue using some of the proposed methods listed above:

Minimum License Fee @ $100	$ 40,885
Remove Exemptions (200 addt'l licenses - inside and outside the City)	$ 20,000
Increase rate (based on average per capita rate in California - $40.16 in FY 2013-14)	$ 280,000

Revenue from business licenses is considered a general tax. The City may use this general tax revenue for any City purpose, such as police protection, fire suppression, storm water, street repair, park maintenance and restoration, library and museum purposes, recreation, code enforcement and other services.

NEXT STEPS

1. Determine whether to modify the current business license tax.
2. (Contingent upon affirmative action for item number 1 above) - Decide upon a method to modify the current business license tax.
3. (Contingent upon affirmative actions for both item numbers 1 and 2 above) - Direct staff to return with an agenda item providing proposed ballot language for voters to consider a potential increase in business license tax.
4. (Contingent upon affirmative actions for item numbers 1, 2 and 3 above) - Direct staff to prepare a resolution placing a proposed business license tax increase on the ballot for voter consideration at the November 8, 2016 general election.

To place a proposed tax measure on the general election ballot to give the City's electorate an opportunity to vote on the measure, a Resolution and the first reading of the Ordinance must be approved by the City Council at a regularly scheduled meeting and sent to the County's Elections Department no later than August 3, 2016. The Resolution calls for an election and asks the County to consolidate with the November 8, 2016 election. The proposed Ordinance amends Chapter 7.04.220 of the City's Municipal Code to increase the License tax – Gross receipts.

ELECTION PROCESS TIMELINE

August 3 Last date (regularly scheduled City Council meeting) for the City Council to take action to file a Notice of Election and Resolution requesting a measure to appear on the ballot

August 19 Primary Arguments Due
August 29 Rebuttal Arguments and City Attorney's Impartial Analysis Due

Please note that the City Council is only scheduled to meet once each month during the months of June and July, 2016 (June 15th and July 20th, respectively).

ALTERNATIVES CONSIDERED
N/A – follow-up discussion from direction provided by the City Council.

OPTIONS
Take no action. Please note that taking no action at this junction could prohibit any proposed business license tax measure from eligibility for potential inclusion on the ballot at the November 8, 2016 general election due to timing constraints.

FISCAL IMPACT
1. Overall estimated fiscal impact to be provided by City staff in a subsequent report following direction provided by Council.
2. Preliminary estimated costs for adding a ballot measure within a general election is approximately $75,000.

ATTACHMENTS
None

RESPECTFULLY SUBMITTED:

Ben Harvey

_____
Ben Harvey
City Manager