Consideration of Polling Results on a Potential Business License Ballot Measure and Direction to Schedule the Consideration of Calling the Election for the August 4, 2026, City Council Meeting

July 21, 2026

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Agenda

- Background
- Timeline and Outreach To Date
- Recap of Tax Model 3
- Impacts to Deviating Businesses
- Concept of Double Taxation
- Alternative Tax Model Options
- Next Steps/Final Direction

Background

Why update the City's Business License Tax (BLT) Code?

- Current tax structure is complex and inequitable
- Concept of a uniform gross receipts model = every business is taxed the same rate
    - Ensures there is no preferential rate for certain business types
    - Modern and more resilient tax basis for cities
- Outdated code from 1971 does not account for new business types
- BLT supports the General Fund to pay for public services, maintenance, infrastructure, and other costs that uphold the City's desirability and attraction to visitors and businesses
- Polling results support the proposed measure to equalize the tax rate across all businesses

Goals of Business License Tax Modernization Plan

1) Simplify the Code

2) Clarify the Code

3) Modernize the Code

4) Fair and Equitable Tax Structure

5) Maintain Fiscal Sustainability

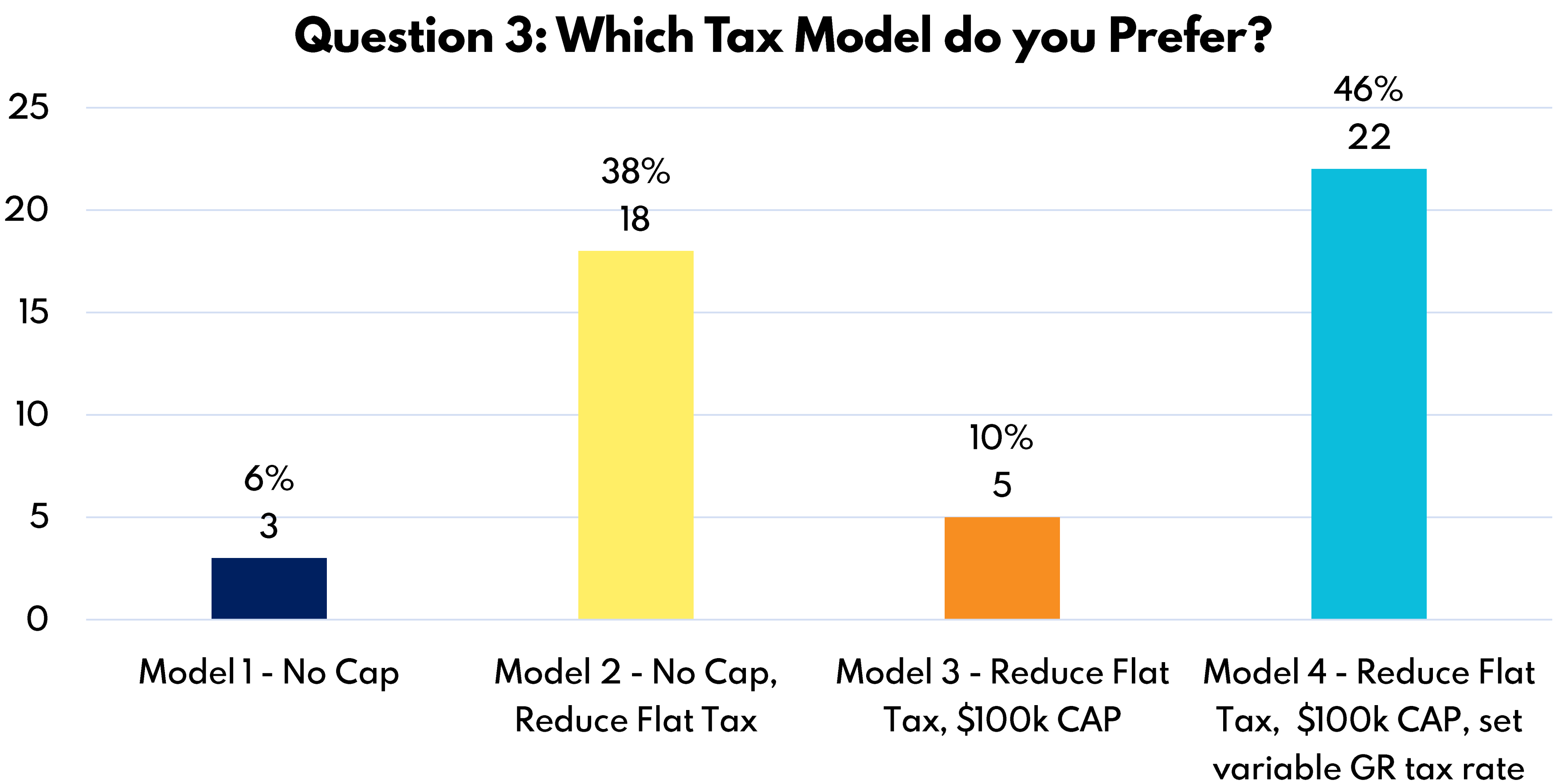
Timeline & Public Outreach

- **October 23, 2025** — Met with Chamber & BIDs
- **November 6, 2025** — Met with Finance Sub-committee
- **March 3, 2026** — Phase 1 Ordinance: City Council Meeting
- **March 17, 2026** — Second Reading of Ordinance
- **April 23, 2026** — Business License Tax Forum – Community Meeting
- **May 12, 2026** — Present Results of Tax Analysis & Select Preferred Tax Model
- **July 21, 2026** — Present Polling Results & Final Decision Points for BLT Measure
- **July – August 2026** — Submit Notice in The Beach Reporter & Continued Outreach & Mailers
- **August 4, 2026** — Phase 2: Call Election, Present Ordinance & Documents for Ballot Measure
- **November 3, 2026** — General Election

Past → Present → Future

Recap of Tax Model 3

Polling Question from Business License Tax Forum



48 Respondents Total

Recap of Models 1 - 4

	2025 Tax Revenue	Model 1	Model 2	Model 3 (Modified)	Model 4
Removes Cap		✓	✓		
Reduce Flat Tax			✓	✓	✓
Set Cap to $100K				✓	✓
Set Variable GR					✓
Projected Revenue	$5,389,000	$8,296,000	$7,703,000	$6,205,000	$5,941,000
Projected Business Tax Revenue Increase		$2,907,000	$2,314,000	$816,000	$552,000

Model 3 Single Gross Receipts Rate

Model Structure:

- Uniform gross receipts rate for all businesses
- Small flat-rate tax
- Increases cap to $100,000
- Transitions to two categories: Non-Exempt & Exempt

Outcomes:

- Easy for businesses to understand
- Same rate for all non-exempt businesses is more equitable
- Increases revenues for City services
- Low flat rate supports micro-enterprises and new businesses

Model 3 Single Gross Receipts Rate

Rate Structure

Tax Basis	Taxable Gross Receipts
Flat Rate (decreases)	$100 Flat Rate (Up to $100,000 in Gross Receipts)
Gross Receipts Tax (decreases incremental tax rate, and sets cap at $100,000)	+ $2.60 per thousand dollars in excess of $100,000 of Gross Receipts

How it Works

Example of $500,000 Business	Amount
Amount in Gross Receipts Reported	$500,000
Less $100,000 deduction from flat rate	-$100,000
Amount Subject to Gross Receipts Tax	$400,000
Divide by $1,000	400
Gross Receipts Tax Rate	x $2.60
Total Gross Receipts Taxes	$1,040
Total Flat Tax	+ $100
Subtotal Tax Amount Due	**$1,140**

Model 3 Analysis

Analysis of Model 3 Business License Tax Structure

Comparison of Business License Tax Payments Based on Gross Receipts of
$100K, $500K, $1M, $3M, $4.5M, $5M, $10M, $20M, $50M, $100M

	Gross Receipts	Current BLT Payment	Current % of Gross Receipts	Model 3 BLT Payment	Model 3 % of Gross Receipts
1	$100,000	$313	0.34%	$100	0.10%
2	$500,000	$1,457	0.29%	$1,140	0.23%
3	$1,000,000	$2,857	0.29%	$2,440	0.24%
4	$3,000,000	$8,457	0.28%	$7,640	0.25%
5	$4,500,000	$12,156	0.27%	$11,540	0.26%
6	$5,000,000	$12,156	0.24%	$12,840	0.26%
7	$10,000,000	$12,156	0.12%	$25,840	0.26%
8	$20,000,000	$12,156	0.06%	$51,840	0.26%
9	$50,000,000	$12,156	0.02%	$100,000	0.20%
10	$100,000,000	$12,156	0.01%	$100,000	0.10%

- ✓ **Reduces Flat Tax to $100**
- ✓ **Reduces Gross Receipts Tax Rate from $2.80 to $2.60**
- ✓ **Increases CAP to $100,000**

Deviating Businesses

Deviating Businesses

- **Hotels:**
  - Current Structure: $29.08 per room
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)
- **Administrative Office:**
  - Current Structure: $313.88 flat tax + $43.55 per employee
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)
- **PO Box**
  - Current Structure: $164.48 per year
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)

Deviating Businesses

- **Rental of Residential Property**

  Condominiums

  - Current Structure: $0 per year, yet annual license required
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)

  Dwelling Units (3 or more units per lot)

  - Current Structure: $29.08 per unit annually
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)

Deviating Businesses

- **Contractor**
  - Current Structure: $508.80 per year
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)
- **Sub-contractor**
  - Current Structure: $254.16 per year
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)
- **Per Vehicle**
  - Gardener - Currently: $197.48 per vehicle
  - Mobile Vendor/Catering - Currently: $420.72 per vehicle
  - Proposed Structure (Model 3): $100 Flat Tax, plus Gross Receipt Basis Tax ($2.60 per $1,000 of GR)

Deviating Businesses

- **Commercial Property**
  - Current Structure:

    Two calculations, whichever is higher:

    1. Structure Square Footage Basis: $313.88 flat tax + $0.457 per square foot in excess of 5,000 square feet not to exceed $251,168 (CAP) OR
    2. Gross Receipts Basis: $313.88 flat tax for the first $91,661 of gross receipts + $2.80/$1,000 in excess thereof not to exceed $12,156 (CAP)

    - Both options allow for Sales Tax Credit Deduction
  - Proposed Structure (Model 3):
    1. Gross Receipts Basis: $100 Flat Tax for the first $100,000, plus $2.60/$1,000 in excess thereof not to exceed $100,000 (CAP)

Feedback from Business Community

Feedback from Business Community Concept of Double Taxation

- **Commercial Property**
  - Business License Tax on Commercial Property is not new
  - Current tax structure requires annual business license
  - Proposed tax structure maintains same requirement

Why this is not "double taxation"	• These are two separate business entities, not a duplicate tax on the same license • Both entities pay a business license based on their respective Gross Receipts

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Feedback from Business Community
Concept of Double Taxation

- **Apportionment**
  - Businesses only need to report Gross Receipts (GR) generated in Manhattan Beach
- **Real Estate**
  - Draft Ordinance would allow brokers to deduct third-party funds held in a trust or escrow account from the basis of their Gross Receipts calculations
  - Each entity pays its fair share in BLT for commissions earned, similar to Contractors/Subcontractors

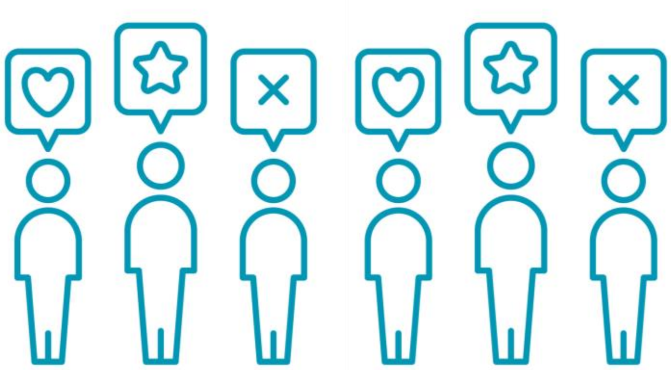
Feedback from Business Community
Concept of Double Taxation

- **Pass Through Revenue**
  - Draft Ordinance will not recognize Pass-Through Revenue as part of Gross Receipts
- **Franchise Agreements with Public Utilities**
  - Draft Ordinance will keep the exemption in place for Public Utilities to only pay the flat tax (and not pay Gross Receipts basis) **if** there is a Franchise Agreement in place where Franchise Taxes are paid

Feedback from Business Community

"Increasing the CAP from $12,156 to $100,000 means businesses generating $5 million+ will see increases"

With concerns in mind, alternative tax models were developed for further consideration



"Applying a uniform tax upon all business types means certain categories will see more noticeable increases"

Business License Tax Modernization Plan
Alternative Tax Model Options

			CURRENT		MODEL 3		OPTION A		OPTION B		OPTION C	
			Flat Tax	GR Rate	Flat Tax	GR Rate	Flat Tax	GR Rate	Flat Tax	GR Rate	Flat Tax	GR Rate
			$337	0.280%	$100	0.260%	$100	0.250%	$150	0.240%	$150	0.225%
Qty. of Businesses Under Amt	%	Gross Receipts	Current BLT Payment	Current % of Gross Receipts	BLT Payment	% of Gross Receipts	BLT Payment	% of Gross Receipts	BLT Payment	% of Gross Receipts	BLT Payment	% of Gross Receipts
2,305	43.9%	**$100,000**	$313	0.34%	$100	0.10%	$100	0.10%	$150	0.15%	$150	0.150%
2,312	44.1%	**$500,000**	$1,457	0.29%	$1,140	0.23%	$1,100	0.22%	$1,110	0.22%	$1,050	0.210%
248	4.7%	**$1,000,000**	$2,857	0.29%	$2,440	0.24%	$2,350	0.24%	$2,310	0.23%	$2,175	0.218%
250	4.8%	**$3,000,000**	$8,457	0.28%	$7,640	0.25%	$7,350	0.25%	$7,110	0.24%	$6,675	0.223%
41	0.8%	**$4,500,000**	$12,156	0.27%	$11,540	0.26%	$11,100	0.25%	$10,710	0.24%	$10,050	0.223%
8	0.2%	**$5,000,000**	$12,156	0.24%	$12,840	0.26%	$12,350	0.25%	$11,910	0.24%	$11,175	0.224%
36	0.7%	**$7,500,000**	$12,156	0.16%	$19,340	0.26%	$18,600	0.25%	$17,910	0.24%	$16,800	0.224%
7	0.1%	**$10,000,000**	$12,156	0.12%	$25,840	0.26%	$24,850	0.25%	$23,910	0.24%	$22,425	0.224%
12	0.2%	**$15,000,000**	$12,156	0.08%	$38,840	0.26%	$37,350	0.25%	$35,910	0.24%	$33,675	0.225%
7	0.1%	**$20,000,000**	$12,156	0.06%	$51,840	0.26%	$49,850	0.25%	$47,910	0.24%	$44,925	0.225%
4	0.1%	**$25,000,000**	$12,156	0.05%	$64,840	0.26%	$62,350	0.25%	$59,910	0.24%	$56,175	0.225%
3	0.1%	**$30,000,000**	$12,156	0.04%	$77,840	0.26%	$74,850	0.25%	$71,910	0.24%	$67,425	0.225%
2	0.0%	**$40,000,000**	$12,156	0.03%	$100,000	0.25%	$99,850	0.25%	$95,910	0.24%	$89,925	0.225%
2	0.0%	**$50,000,000**	$12,156	0.02%	$100,000	0.20%	$100,000	0.20%	$100,000	0.20%	$100,000	0.200%
4	0.1%	**$75,000,000**	$12,156	0.02%	$100,000	0.13%	$100,000	0.13%	$100,000	0.13%	$100,000	0.133%
4	0.1%	**$100,000,000**	$12,156	0.01%	$100,000	0.10%	$100,000	0.10%	$100,000	0.10%	$100,000	0.100%
5,245	**100%**											

$100,000 CAP SCENARIOS	Current	Model 3	Option A	Option B	Option C
Maximum Tax (CAP)	**$12,156**	**$100,000**	**$100,000**	**$100,000**	**$100,000**
Estimated Increased City Revenue		**$816,630**	**$636,252**	**$713,625**	**$443,059**
% of Businesses with Increase		**23%**	**23%**	**32%**	**30%**
No Change (Exempt)		**2%**	**2%**	**2%**	**2%**
% of Businesses with Decrease		**75%**	**75%**	**66%**	**68%**

$75,000 CAP SCENARIOS	Current	Model 3	Option A	Option B	Option C
Maximum Tax (CAP)	**$12,156**	**$75,000**	**$75,000**	**$75,000**	**$75,000**
Estimated Increased City Revenue		**$540,747**	**$367,127**	**$449,445**	**$184,443**
Less Revenue if CAP reduced		**$275,883**	**$269,125**	**$264,180**	**$258,616**
# of Businesses Impacted by $75K CAP		15	12	12	12

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Commercial Property Impacts

	Flat Tax	GR Rate	Flat Tax		GR Rate	Flat Tax		GR Rate	Flat Tax		GR Rate	Flat Tax		GR Rate
	$313	0.280%	$100		0.260%	$100		0.250%	$150		0.240%	$150		0.225%
	CURRENT		MODEL 3			OPTION A			OPTION B			OPTION C		
Examples based on $500,000 - $25,000,000 in Gross Receipts	Current BLT Payment	% of Gross Receipts	BLT Payment	$ Change	% of Gross Receipts	BLT Payment	$ Change	% of Gross Receipts	BLT Payment	$ Change	% of Gross Receipts	BLT Payment	$ Change	% of Gross Receipts
$500,000	$1,457	0.29%	$1,140	($317)	0.23%	$1,100	($357)	0.22%	$1,110	($347)	0.22%	$1,050	($407)	0.21%
$1,000,000	$2,857	0.29%	$2,440	($417)	0.24%	$2,350	($507)	0.24%	$2,310	($547)	0.23%	$2,175	($682)	0.22%
$3,000,000	$8,457	0.28%	$7,640	($817)	0.25%	$7,350	($1,107)	0.25%	$7,110	($1,347)	0.24%	$6,675	($1,782)	0.22%
$5,000,000	$12,156	0.24%	$12,840	$684	0.26%	$12,350	$194	0.25%	$11,910	($246)	0.24%	$11,175	($981)	0.22%
$10,000,000	$12,156	0.12%	$25,840	$13,684	0.26%	$24,850	$12,694	0.25%	$23,910	$11,754	0.24%	$22,425	$10,269	0.22%
$25,000,000	$12,157	0.05%	$64,840	$52,683	0.26%	$62,350	$50,193	0.25%	$59,910	$47,753	0.24%	$56,175	$44,018	0.22%

All proposed Models remove the Square Footage Basis of the Tax and replaces current $251,168 Cap

Gross Receipts Range	# of Businesses	%		
$1 - $100,000	84	39.6%	95.8%	Decreases in all Models within this range
$100,000 - $500,000	95	44.8%		
$500,000 - $1,000,000	14	6.6%		
$1,000,000 - $3,000,000	10	4.7%		
$3,000,000 - $4,500,000	3	1.4%		
$4,500,000 - $5,000,000	2	0.9%		
$5,000,000 +	4	0.5%		
Total Commercial Property	**212**	**100%**		

Data is based on 2025-2026 licensing year reflecting Gross Receipts from 2024 Calendar Year

Recommendation

- Staff recommends City Council discuss and provide direction regarding:
  - Final Decision Points on Tax Model
  - Whether to proceed with placing ballot measure
- If approved, next steps will be to return on August 4, 2026, to present the following:
  - Ordinance and ballot language
  - Resolution to Call the Election
  - Resolutions for Ballot Measure Submission and Filing of Rebuttal Arguments
  - Selection of a Ballot Letter Designation for the City's Ballot Measure (Tentative letters for measure are BL or MBL)
- Additional outreach to businesses and residents will be provided

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SUN

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