



CITY OF MANHATTAN BEACH

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STAFF REPORT

Agenda Date: 1/21/2025

TO:

Honorable Mayor and Members of the City Council

THROUGH:

Talyn Mirzakhanian, City Manager

FROM:

Onyx Jones, Interim Finance Director
Libby Bretthauer, Financial Services Manager
Emy-Rose Hanna, Revenue Services Supervisor

SUBJECT:

Consideration of an Ordinance and Resolution to Establish a \$17 Processing Fee to Support the City's Regulation of Businesses (No Budget Impact) (Interim Finance Director Jones).

A) INTRODUCE ORDINANCE NO. 25-0001

B) ADOPT RESOLUTION NO. 25-0002

RECOMMENDATION:

Staff recommends that the City Council consider adopting Ordinance No. 25-0001 and Resolution No. 25-0002 to establish a processing fee to support the City's regulation of businesses.

FISCAL IMPLICATIONS:

The City is currently implementing a new business license software system that will streamline the application process for new business licenses and the annual renewal process with new online functionality. This new advanced system will cost \$17 per processed account; therefore, a \$17 Processing Fee is being proposed to recover the cost of the new system and regulatory functions of the program.

Should the City Council decide not to adopt the fee, a budget appropriation of \$90,100 is needed from the Unreserved General Fund balance to cover the cost of business license software and related services obtained through Hinderliter de Llamas & Associates ("HDL").

BACKGROUND:

The City requires all businesses operating within its jurisdiction to maintain a business license. This serves two purposes: to regulate business activity, and to facilitate collection of the City's

business license tax. The City incurs costs to pursue both purposes, however, the City does not currently have a fee to recover these program costs.

The City has been utilizing the “Eden” software through Tyler Technologies for business license processing since 2007. However, this software is no longer supported and is being phased out by the company. Given these technology limitations, the City Council approved a contract on November 19, 2024 with Hinderliter de Llamas & Associates (“HDL”) for business license software and related services to bring operational efficiencies and modernization to the program with an online portal for processing and payments. In the November 19, 2024 agenda report, it was noted that the \$17 fee would be presented to City Council for approval at a future date.

DISCUSSION:

Chapter 6.01 of the City’s Municipal Code provides for both the regulation and taxation of businesses operating in the City’s jurisdiction. Section 6.01.290 permits the City to establish a “fee schedule for business licenses” by resolution. While the City charges applicable business license taxes, there is no separate fee to cover the administrative costs to process business license applications and renewals, or to otherwise execute the license program’s regulatory function to ensure each business “has complied in all respects with all requirements or provisions of the laws of the City, County or State.” (Muni. Code, § 6.01.020.) Staff proposes to amend Municipal Code Section 6.01.290, adopted in June 1976, to implement regulatory fees permitted by Proposition 26 (California Constitution, article XIII C section 1, subdivision (e)(3)).

Proposed Resolution No. 25-0002 sets the initial rate for this fee at \$17 per each new license application or annual renewal, with an annual increase to track the Consumer Price Index, provided the increase for any given year will be at least two percent and no more than 10 percent. This annual increase is consistent with the compensation set forth in the recent agreement with Hinderliter, de Llamas & Associates (HdL) to administer the City’s business license program.

To provide further insight, staff discovered that administrative/processing fees are common practice and are consistent with other municipalities that assess a similar type of fee during the business license process, as illustrated below.

City	Fee Name	Fee Amount
Chino Hills	Business License Fee	\$16.89
Culver City	New Application Fee	\$77
Culver City	Renewal Fee	\$67
Hermosa Beach	New Business Registration	\$42 (in-city)
Hermosa Beach	New Business Registration	\$25 (out-of-city)
Hermosa Beach	Business Registration Renewal	\$21
Torrance	Business License Processing Fee	\$36
Gardena	Business License Storage/Scanning Fee	\$31
Ventura	Business Tax Certificate Review Fee (New)	\$55
Ventura	Business Tax Certificate Review Fee (Renewal)	\$33
Poway	Business Certification	\$20
La Habra	Business License Administrative Fee (New)	\$31
La Habra	Business License Administrative Fee (Renewal)	\$22

Signal Hill Business License Program Administration Fee \$60

The City's proposed \$17 processing fee is lower compared to most cities listed in Table 1 that charge a similar fee. The projected annual revenue from this processing fee is \$90,100. Staff considers the \$17 rate is appropriate given the estimated \$110,000 in annual regulatory cost for ensuring compliance with zoning, building and other city ordinances that is currently not being recovered by the City.

PUBLIC OUTREACH:

In an effort to inform the business community that would be impacted by this fee, the City notified the Downtown Manhattan Beach Business + Professional Association, North Manhattan Beach Business Improvement District and the Manhattan Beach Chamber of Commerce. In addition to this outreach, the City will be hosting information sessions in late January regarding the new business licensing system, key dates for the renewal season and additional notification regarding the Processing Fee.

ENVIRONMENTAL REVIEW:

The City has reviewed the proposed activity for compliance with the California Environmental Quality Act (CEQA) and has determined that the activity is not a "Project" as defined under Section 15378 of the State CEQA Guidelines because it consists of an administrative activity of government that will not result in direct or indirect physical changes in the environment. Therefore, pursuant to Section 15060(c)(3) of the State CEQA Guidelines the activity is not subject to CEQA. Thus, no environmental review is necessary.

LEGAL REVIEW:

Special counsel has reviewed this staff report and drafted the accompanying resolution and ordinance and approves the ordinance as to form. The regulatory and taxing functions described in Chapter 6.01 of the Municipal Code serve different purposes. As summarized in Section 6.01.020, the regulatory purpose behind requiring a business license is to create a regular process by which the City ensures each business "has complied in all respects with all requirements or provisions of the laws of the City, County or State." The City's business license tax, on the other hand, is only meant to raise revenue.

These different purposes carry different legal restrictions. As relevant here, if the City needs to impose a fee to support its regulatory activities, it must limit the fee to recovering the costs associated with regulation, as distinct from costs associated with administering its tax. Further, the fee imposed on each business must be proportionate to the burden that business puts on the City's regulatory program. In both cases, however, these limits are governed by a standard of reasonableness: What is a reasonable estimate of total regulatory costs, and what is a reasonable way to allocate those costs among regulated businesses? (Cal. Const., art. XIII C, § 1(e).)

The fee currently before the Council meets these requirements. It will recover no more revenue in total than projections of City costs to process applications for new business licenses and the renewal of existing licenses. In particular, it is tied to what the City has agreed to pay HdL to administer its business license program. While HdL's services will include processing tax payments in addition to ensuring compliance with relevant laws, this is balanced by the

regulatory costs the City has not and cannot assign to HdL. In short, the fee is limited to what the City has agreed to pay HdL, but that payment does not account for all recoverable costs, and thus the proposed fee is lawful as a reasonable estimate of what the City may recover. A flat \$17 fee is also appropriate, as there is no indication that different businesses impose different burdens on the City's licensing system.

ATTACHMENTS:

1. Ordinance No. 25-0001
2. Resolution No. 25-0002