



AGENDA

SPECIAL MEETING OF THE SANTA FE SPRINGS CITY COUNCIL

July 12, 2022
5:00 P.M.

Juanita Martin, Councilmember
John M. Mora, Councilmember
Jay Sarno, Councilmember
Joe Angel Zamora, Mayor Pro Tem
Annette Rodriguez, Mayor

Council Chambers
11710 Telegraph Road
Santa Fe Springs, CA 90670

You may attend the City Council meeting telephonically or electronically using the following means:

Electronically using Zoom: Go to Zoom.us and click on "Join A Meeting" or use the following link:

<https://zoom.us/j/521620472?pwd=U3cyK1RuKzY1ekVGZFdKQXNZVzh4Zz09>

Zoom Meeting ID: 521620472

Password: 659847

Telephonically: Dial: 888-475-4499

Meeting ID: 521620472

Public Comment: The public is encouraged to address City Council on any matter listed on the agenda only. If you wish to address the City Council, please use the "Raise Hand" function via Zoom once the Mayor opens Public Comment during the meeting. You may also submit comments in writing by sending them to the City Clerk's Office at cityclerk@santafesprings.org. All written comments received by 12:00 p.m. the day of the City Council Meeting will be distributed to the City Council and made a part of the official record of the meeting. Written comments will not be read at the meeting, only the name of the person submitting the comment will be announced.

Pursuant to provisions of the Brown Act, no action may be taken on a matter unless it is listed on the agenda, or unless certain emergency or special circumstances exist. The City Council may direct staff to investigate and/or schedule certain matters for consideration at a future City Council meeting.

Americans with Disabilities Act: In compliance with the ADA, if you need special assistance to participate in a City meeting or other services offered by this City, please contact the City Clerk's Office. Notification of at least 48 hours prior to the meeting or time when services are needed will assist the City staff in assuring that reasonable arrangements can be made to provide accessibility to the meeting or service.

Please Note: Staff reports, and supplemental attachments, are available for inspection at the office of the City Clerk, City Hall, 11710 E. Telegraph Road during regular business hours 7:30 a.m.-5:30 p.m., Monday-Thursday and every other Friday. Telephone: (562) 868-0511.

City of Santa Fe Springs
Special Meeting

July 12, 2022

1. CALL TO ORDER

2. ROLL CALL

Juanita Martin, Councilmember
John M. Mora, Councilmember
Jay Sarno, Councilmember
Joe Angel Zamora, Mayor Pro Tem
Annette Rodriguez, Mayor

3. PUBLIC COMMENTS *This is the time when comments may be made by members of the public on matters on the agenda only. The time limit for each speaker is three minutes unless otherwise specified by the Mayor.*

CITY COUNCIL

4. STUDY SESSION

Presentation of Potential Changes to the City's Business Operation Tax Ordinance (Finance)

Recommendation:

- Provide direction regarding potential changes to the City's Business Operations Tax Ordinance.

5. COUNCIL COMMENTS

6. ADJOURNMENT

I, Janet Martinez, City Clerk for the City of Santa Fe Springs, do hereby certify under penalty of perjury under the laws of the State of California, that the foregoing agenda was posted at the following locations; City's website at www.santafesprings.org; Santa Fe Springs City Hall, 11710 Telegraph Road; Santa Fe Springs City Library, 11700 Telegraph Road; and the Town Center Plaza (Kiosk), 11740 Telegraph Road, not less than 24 hours prior to the meeting.



Janet Martinez, CMC, City Clerk

July 8, 2022
Date Posted



City of Santa Fe Springs

Special Meeting

July 12, 2022

STUDY SESSION

Presentation of Potential Changes to the City's Business Operation Tax Ordinance

RECOMMENDATION(S)

- Provide direction regarding potential changes to the City's Business Operations Tax Ordinance.

BACKGROUND

On July 20, 2021 the City Council approved an agreement with Hinderliter, de Llamas & Associates ("HdL") for business license administration and related services. The agreement provides for a Business License Tax Ordinance/Fee Study ("Study") to be performed. The Study includes an analysis of the current Business Operation Tax Ordinance ("Ordinance") and the City's tax registration database. The City's Ordinance is contained in Title III, Chapter 35 of the City Municipal Code beginning with Section 35.070. Data was compiled on the number of businesses, current tax revenues received by the City, categories, and other related information.

HdL's Study was finalized, providing a series of tax re-structuring options for the City Council's consideration. On April 20, 2022, at a Special Meeting of the City Council, HdL prepared a presentation to cover the essential elements of the potential options and answer any questions the City Council had.

Based on the direction from the City Council, staff and the City's consultant with HdL engaged with leaders from the business community to solicit feedback on the proposed options. "Model Seven" was prepared after listening to the business community and taking seriously their feedback along with the City's general policy objectives. Model Seven combines the gross-receipts approach for most of our business classifications with a square footage rate with a CPI adjustment of between 1% and 5% for the industrial businesses. It also eliminates a tax on property rentals to account for concerns about the tax being passed on to tenants. Additionally, it eliminated the complexity and increased burden of taxing larger square-footage buildings at higher rates. Instead, it taxes the square footage at one rate, thus simplifying the calculation for those businesses and lessening the impact.

As with Model Six, the revenue estimated in Model Seven is heavily reliant on the industrial businesses. Thus, as with Model Six, the gains estimated depend heavily on assumptions about the amount of square footage and on the impact of a tax increase in occupancy and on business retention. We discussed the risk of relocation in the tax study, and that risk has been amplified in the passing months by the increase in gas prices and other economic circumstances that are affecting businesses statewide.



City of Santa Fe Springs

Special Meeting

July 12, 2022

A summary of the estimated revenues by business category and a series of frequently asked questions are attached to this report. The City's consultant will also present the details on Model Seven for further direction from the City Council.

On April 20, 2022 the City Council also approved an agreement with TBWBH Props & Measures for public outreach related to potential changes to the Ordinance. A public opinion survey was developed and conducted with likely voters during June 2022. The results of the survey will also be presented for further direction from the City Council.

Raymond R. Cruz
City Manager

Attachment(s):

- 1) Model Seven Financial Summary
- 2) Frequently Asked Questions

Model Seven: Latest Potential Model for Presentation to City Council

Categories	Est. Number of Businesses	Proposed Rate	Estimated Tax Revenue
Professionals	175	\$2.00 per thousand dollars of gross receipts	\$ 188,125.00
Contractors	966	\$1.50 per thousand dollars of gross receipts	\$ 241,500.00
General Businesses	413	\$0.75 per thousand dollars of gross receipts	\$ 204,143.24
Services	686	\$0.75 per thousand dollars of gross receipts	\$ 217,805.00
Com/Res Property Rentals	3,456	Not Taxed	\$ -
Industrial Business Activities	1,173	\$0.10 per square foot	\$ 6,303,316.50
Total			\$ 7,154,889.74

Notes:

Minimum Tax = \$25

Maximum Tax = \$50,000

Square footage rate subject to annual CPI adjustment (between 1% and 5% per year).

Square footage is usable parking area for truck yards and other truck storage businesses

Square footage is usable building floorspace for all other Industrial Business Activities

Frequently Asked Questions About the
Proposed Modernized Business License Tax

Note that at this time the City is still developing the business license tax proposal, and no tax ordinance has yet been drafted. This FAQ is intended to help explain the current proposal. However, details may change as the ordinance is refined or as comments are taken into account.

1. For businesses that are taxed based on the square footage of usable area of the business, what counts as “usable area”?

The tax ordinance has not yet been drafted, so no definition is yet finalized. However our current intent is that this will apply to all square footage usable in the business, including office areas and ancillary rooms and structures such as guard shacks and storage rooms. The intent is not to tax areas of the building that are unusable, such as crawlspaces.

2. Why are landlords exempted from the tax?

Our understanding is that most commercial leases in the City are on a “triple net” basis. With this kind of lease, any tax upon a landlord would be passed on by the landlord to the tenant. We received extensive concern from the business community that this pass-through would result in an unfair burden on tenants (who would pay both the tax on their business and a pass-through tax from the landlord) as opposed to businesses operating on property owned by the business. Therefore, we chose to tax each business operating in the City, but not the landlords of such businesses.

3. How do the minimum and maximum taxes work?

The minimum tax for a business is \$25.00 per year. The maximum is \$50,000 per year. These are not a base tax paid in addition to the calculated tax, but a floor and a ceiling on the calculated tax for any business. The minimum and maximum apply to each license. A separate license is required for each legal entity operating a business in the City, and for each separate business or non-contiguous site operated by that entity.

4. How does the CPI cap work?

Each year's inflation adjustment will be equal to the lesser of (i) the change in CPI over the past year or (ii) 5%.

5. What counts as gross receipts?

While the exact definition has not yet been drafted many municipalities in California that have a gross-receipts tax use something like the below definition.

“Gross receipts” includes the total of amounts actually received or receivable from sales and the total amounts actually received or receivable for the performance of any act or service, of whatever

nature it may be, for which a charge is made or credit allowed, whether or not such act or service is done as a part of or in connection with the sale of materials, goods, wares or merchandise. Included in "gross receipts" shall be all receipts, cash, credits, and property of any kind or nature, without any deduction therefrom on account of the cost of the property sold, the cost of materials used, labor or service costs, interest paid or payable, or losses or other expenses whatsoever. Excluded from "gross receipts" shall be the following:

- 1. Cash discounts allowed and taken on sales;*
 - 2. Credit allowed on property accepted as part of the purchase price and which property may later be sold;*
 - 3. Any tax required by law to be included in or added to the purchase price and collected from the consumer or purchaser;*
 - 4. Such part of the sale price of property returned by purchasers upon rescission of the contract of sale as is refunded either in cash or by credit;*
 - 5. Amounts collected for others where the business is acting as an agent or trustee to the extent that such amounts are paid to those for whom collected, provided the agent or trustee has furnished the Collector with the names and addresses of the others and the amounts paid to them;*
 - 6. Receipts of refundable deposits, except that refundable deposits forfeited and taken into income of the business shall not be excluded;*
 - 7. As to a real estate agent or broker, business opportunity broker, or other types of brokers, the sales price of real estate, business, yachts or other commodities sold for the account of others except that portion which represents commission or other income to the agent or broker;*
 - 8. As to a retail gasoline dealer, a portion of his receipts from the sale of motor vehicle fuels equal to the motor vehicle fuel license tax imposed by and previously paid under the provisions of Part 2 of Division 2 of the Revenue and Taxation Code of the State;*
 - 9. As to a retail gasoline dealer, the special motor fuel tax imposed by Section 4041 of Title 26 of the United States Code if paid by the dealer or collected by him from the consumer or purchaser.*
6. For companies with HQ in SFS, does the gross receipts tax includes revenues generated from activities outside the city?

The tax is on business activities conducted in the City and is not limited to sales that occur in the City. As an example, if a company manufactures a product in the City but sells it to someone in another state, that business activity occurs in the City and would be taxable. The City is trying to tax the business activity in the City even if the customer is outside the City or some other business activity occurs outside the City.

7. How will funds be used?

Business license taxes are not generally earmarked for a specific purpose and are a key mechanism for raising funds used to provide City services. The City's existing business license tax rate is lower than most peer cities, especially for larger businesses. The City also has an unusual number of businesses that generate no sales taxes. This new tax will put the taxes on businesses more in line with those in other cities, and will additionally generate funding to offset the unusually large impact warehouses and industrial businesses place on our streets.

The expectation is that this tax will enable the City to provide more funding for roadwork and infrastructure. However, this is not a tax that will exclusively fund roads and infrastructure.