



COUNTY OF SAN MATEO
Inter-Departmental Correspondence

DATE: July 31, 2008

BOARD MEETING DATE: August 5, 2008

SPECIAL NOTICE/HEARING: None

VOTE REQUIRED: Four-Fifths

TO: Honorable Board of Supervisors

FROM: Finance and Operations Committee

Supervisor Mark Church and Supervisor Rich Gordon

SUBJECT: Business License Tax on Operators of Vehicle Rental Businesses in the Unincorporated County at a Rate of Five Percent (5%) of Gross Receipts

RECOMMENDATION:

- (1) Introduce an ordinance imposing a business license tax on operators of vehicle rental businesses at the rate of five percent (5%) of gross receipts of vehicle rental businesses in the unincorporated county; and
- (2) Adopt a resolution calling an election for the purpose of submitting to the electors a proposition for the adoption of an ordinance to impose a business license tax at the rate of five percent (5%) of gross receipts of vehicle rental businesses in the unincorporated county.

VISION ALIGNMENT:

Commitment: Responsive, effective and collaborative government

Goal(s): Number 20: Government decisions are based on careful consideration of future impact, rather than temporary relief or immediate gain.

BACKGROUND:

At its meeting of July 22, 2008, this Board discussed the advisability of instituting a business license tax on vehicle rental activities in the unincorporated area of the County in order to raise general fund revenues. At that meeting, the Board determined to continue the matter to its meeting of August 5, 2008, in order to allow

consultation and discussion between industry representatives and the County. In particular, a special meeting of the Finance and Operations Committee of this Board is scheduled for August 4, 2008, and it is possible that we will have additional information to share with the Board, based on consultations that take place at the committee meeting.

As noted in earlier correspondence regarding this matter, the County does not presently impose a business license tax on vehicle rental businesses, although we have determined that many other California jurisdictions do impose business license taxes on such businesses. Information that the County Manager's Office has received appears to indicate that operators of vehicle rental businesses in the unincorporated area of the County generated gross receipts of up to \$308,788,100 during the year ending December 31, 2007.

DISCUSSION:

The California Revenue and Taxation Code vests counties with the authority to impose a license tax upon every kind of lawful business transacted in the unincorporated area of the county.

Although the County may adopt a business license tax such as the one discussed above for the purposes of generating general fund revenues, Proposition 218 (and related provisions of the California Government Code) provides that, because it is a general tax, it may be imposed only if it is approved by a majority vote of the County electorate in an election consolidated with a regularly scheduled general election for members of the Board of Supervisors. Similarly, the Government Code provides that a local governmental agency may not present a proposal for a general tax to the electorate unless the agency's governing board has approved, by a two-thirds vote, an ordinance or resolution proposing the tax. Consequently, any proposal to impose a business license tax on vehicle rental businesses would need to be approved by no fewer than four members of this Board before it may be submitted to the County electorate.

Under California law, ordinances must be adopted at a regular meeting of this Board taking place at least five days after the ordinance is first introduced. We are recommending that an ordinance imposing a business license tax on vehicle rental businesses be introduced at the Board's August 5, 2008 meeting. The California Elections Code requires that resolutions calling for elections on ballot measures be adopted at least eighty-eight days prior to the election, and the next meeting of this Board after August 5, 2008 will be fewer than eighty-eight days before the November 5, 2008 general election.

Consequently, this Board is being asked to adopt a resolution on August 5, 2008 calling an election for the purpose of submitting to the electors this proposed business license tax. The resolution includes a provision noting the Board's inherent authority to withdraw a measure that the Board subsequently determines should not proceed to election. If the Board subsequently determines at its August 12, 2008

meeting not to approve imposition of the business license tax, the ballot measure can be withdrawn.

FISCAL IMPACT:

As noted, vehicle rental businesses in the unincorporated area of the County generated up to an approximate amount of \$300,000,000 during the year ending December 31, 2007. The amount of revenue generated by a business license tax would depend on the percent of gross receipts at which the tax rate is set. However, based on 2007 figures and by way of example, each one percent of tax rate would generate approximately \$3,000,000 in general fund revenues. Thus, a business license tax at the rate of five percent of gross receipts would generate approximately \$15 million in general fund revenues. The cost of placing this measure on the November 2008 ballot, as required under Proposition 218, could be as high as \$550,000, if no other county-wide measures are placed on the ballot. A second measure would add an additional \$100,000 in election-related costs. This amount would not be recoverable if the measure fails.