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REPORT OF THE
CHIEF LEGISLATIVE ANALYST

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Date: February 10, 2010
To: The Honorable Members of the Los Angeles City Council
From: Gerry F. Miller 
Chief Legislative Analyst
Subject: Options for Revenue Generation

As requested by the City Council during its February 3, 2010 deliberations on the Mid Year Financial Status Report in Motion 10M (Alarcon-Huizar), Motion 10R (Reyes-Parks), and Motion 10BB (Huizar-Koretz), attached is matrix of proposed revenue generation ideas for the City Council's consideration at today's Council meeting.

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REVENUE OPTIONS

OPTION	DESCRIPTION	REQUIRED ACTION(S)	Estimated Increase in 2009-10 Rev	Estimated Increase in 2010-11 Rev	COMMENTS
VOTER APPROVAL LIKELY <u>NOT</u> REQUIRED FOR ANY OF THE FOLLOWING MEASURES:					
1	<p>User fee for traffic enforcement</p> <ul style="list-style-type: none"> • Historically, the City received a very high percentage of traffic citation income per state law. Now, the State has added a large number of fees that make the City's share less than 25% (in one study City citation revenue did not even pay for officer overtime to testify in court). • Currently City collects \$16 million from moving violations. • Current cost of issuing tickets is roughly \$65 million/year. • State actions have reduced City share from 87% to less than 25%. • Most fine amounts set by State action, not by City. • Judges often use their discretion to waive fees placed on citations, thereby reducing revenues. • User fee of \$125/citation would recover costs; existing fine amounts would be the penalty. • As of September 2009, the City is projected to issue 593K citations for moving traffic violations. 	<ul style="list-style-type: none"> • Draft and enact an ordinance adding a user fee. • Arrange collections with LA Courts. • Agree on enforcement mechanism for those who do not pay, and provide enforcement staffing. 	\$0	<p>\$24M from a \$125/citation user fee (4 months of revenue).</p> <p>Up to \$74M annually, although actual collections could likely be much less.</p>	<p>City staff need to further research the potential for the State to impose this as a surcharge.</p> <p>Staff should also explore the possibility that the courts discretion will limit what we will recover/collect from this surcharge, and if we need State legislation to ensure full collection.</p>

2	EMS Voluntary Fee	<ul style="list-style-type: none"> Several Southern California cities (e.g., Glendale, Santa Ana, Fullerton, Huntington Beach, Arcadia, and Anaheim) have instituted a voluntary EMS fee. Payment of this voluntary fee will entitle the subscriber to free EMS service for those with insurance and reduced cost EMS service for those without insurance. Propose a fee of \$5-\$10 on the DWP bi-monthly bill. 	<ul style="list-style-type: none"> Draft and enact an ordinance. Advertise availability of the fee for service. Placement on DWP bill. Collection. 	\$3M in 2009-10 (3 mos funding) based on the estimated participation of 200,000 City residents	\$12M-\$24M annually, based on the estimated participation of 200,000 City residents.	
3	Advertising/Municipal Marketing	<p>As identified by the Mayor, set up a non-profit that would be a self-funded marketing and promotional operation for the City. This non-profit would identify marketing opportunities, seek out corporate sponsors in return for publicity and advertising/promotional space.</p>	<ul style="list-style-type: none"> Draft and release an RFQ to solicit expertise from a marketing firm to develop individual RFP's for possible implementation. Estimated cost of \$200K. Estimated start-up loan of \$1.5M. 	\$0, to allow first and second year revenues to pay back seed loan.	\$0	<p>\$25M per year, according to Mayor's estimates</p> <p>The City previously explored this option in 2004, pursuant to Motion (Zine-Weiss) (CF 03-2564) but determined that the City does not have the in-house expertise to implement this proposal.</p>

VOTER APPROVAL REQUIRED FOR ANY OF THE FOLLOWING MEASURES. The following chart shows the requirements for placing measures on the Special Election and Regular Municipal ballots, and the voter approval requirements:

General Tax	<u>Special Election (November 2010)</u> Council Declare Emergency by 100% Council Vote & Mayoral approval. 50%+1 vote of the electorate.
Special Tax	2/3 Council Vote & Mayoral approval. 2/3rds vote of the electorate.
General Tax	<u>Regular Municipal Election (March 2011 or May 2011)</u> 2/3 Council Vote & Mayoral approval. 50%+1 vote of the electorate.
Special Tax	2/3 Council Vote & Mayoral approval. 2/3rds vote of the electorate.

NOTE: Proposition 218 authorizes local government to propose "property-related" fees to property owners affected by the proposed fee (other than fees for water, sewer, or refuse collection), which can be approved by a majority of property owners. Local government may also weigh ballots in proportion to fee liability.

Any parcel tax is considered special taxes for voting purposes.

4	Recovery fee for cost of 911 and dispatch operations	<ul style="list-style-type: none"> • A fee charged per line on every phone bill • Amount designed to recover the cost of the emergency call center. • Previously used in San Jose and San Francisco and selected other CA cities. • Preliminary estimate is a fee of \$2.25/line/mo. 	<ul style="list-style-type: none"> • Analyze number of phone lines and collection delays. • Determine appropriate Exemptions. • Develop a ballot measure for placement on the next available ballot (November 2010) • Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax • County validates election results. • City begins collection. 	\$0	\$21M in 2010-11 (4 months of funding). \$65M annually thereafter, upon full implementation depending on the number and type of exemptions authorized, and collection rates.	Union City adopted an ordinance in 2004 to impose a fee on telephone lines to fund the 911 system but the Courts subsequently determined that this was a special tax that requires approval by 2/3 of the electorate under Proposition 218.
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5	Apply documentary transfer tax to LLC's	<p>The City of Los Angeles currently assesses a documentary transfer tax rate of \$4.50 per \$1,000 of value on conveyed real property (0.45%)</p> <p>Applying this rate to commercial properties when controlling interest has been transferred is beyond the definitions in current City ordinances drafted, which were drafted in the late 1960's. Revise the ordinances to make the City's current documentary transfer tax applicable to LLC's.</p>	<ul style="list-style-type: none"> Develop a ballot measure for placement on the next available ballot (November 2010) Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax County validates election results. County begins remitting collections to City. 	\$0	\$1.6M per year	
6	Increase Documentary Transfer Tax rate	<p>Currently, the City of Los Angeles requires payment of a documentary transfer tax of \$4.50/\$1000 of property sales value. In 2009-10, this assessment is estimated to generate \$92M in city revenue.</p> <p>The City may consider increasing its documentary transfer tax to \$9/\$1000 of property sales value. Under this revision, a house valued at \$400K that would be charged \$1,800 under the current fee structure would be required to pay \$3,600 under a revised fee structure.</p>	<ul style="list-style-type: none"> Development of ballot measure Placement on the next available ballot (Nov 2010) Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax County validates election results. City begins to levy new rate and collect revenues on a monthly basis. 	\$0	\$30M could be generated over 4 months through a doubling of the Documentary Transfer Tax, although the actual amount would likely be much less due to the status of the real estate industry.	<p>\$90M annual increase in Documentary Transfer Tax revenues from a doubling of the rate.</p> <p>Current City documentary transfer tax rates per \$1000 of value:</p> <p>Oakland: \$15.00 Berkeley: \$15.00 San Francisco: \$5.00 to \$15.00, depending on sales price Culver City: \$4.50 Los Angeles \$4.50 Pomona \$2.20 Redondo Beach \$2.20 Santa Monica \$3.00 Most others: \$0.55</p>

7	Barrel tax on petroleum extraction	<p>Charge either a fixed per-barrel tax or a gross receipts tax per barrel of oil extracted within City limits. Some southern California cities charge 20¢ to 60¢ per barrel. Culver City charges a tax of 1.8% of the price of each barrel.</p> <p>In 2007, 2.95M barrels were extracted from 768 active wells within the City limits. In the County of Los Angeles, 26.3 million barrels were extracted in 2007. Updated information is pending.</p>	<ul style="list-style-type: none"> • Development of ballot measure • Placement on the next available ballot (Nov 2010) • Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax • County validates election results. • City begins to levy new rate and collect revenues. 	\$0	<p>Unknown, inasmuch as collection of revenues must be defined. Monthly submissions could generate 4 months of revenue in 2010-11 (\$450K).</p>	<p>Upon full implementation, per barrel tax would generate \$0.5 - \$1.8 million/year. A Gross Receipts tax per barrel would likely generate much more revenue.</p>
8	Parking Occupancy Tax	<p>The City imposes a 10% tax on all parking fees collected from patrons at parking facilities, which in 2009-10 generated \$82.3M in Parking Users' Tax income.</p> <p>Proposal is to increase the City's Parking Occupancy tax from 10% to 15%.</p>	<ul style="list-style-type: none"> • Development of ballot measure • Placement on the next available ballot (Nov 2010) • Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax • County validates election results. • City begins to levy new rate and collect revenues on a monthly basis. 	\$0	<p>\$13.7M in additional revenue (4 months of revenue if approved on Nov 2010 ballot)</p>	<p>Upon full implementation, this increase would generate an additional \$41.15M annually</p> <p>Current rates in other major cities: Pittsburgh (45%), San Francisco (25%), Chicago (18.75% to 50%), New York (10.375% to 18.375%), Miami (15%), Philadelphia (15%), New Orleans (12%), Oakland (10%), Seattle (10%).</p>

9	Additional Billboard Gross Receipts Tax	<p>Currently, the billboard industry is taxed at three different rates: Commercial Property Rental : \$1.27/\$1000 Advertising Agencies: \$3.56/\$1000 Professions & Occupations: \$5.07/\$1000</p> <p>The City currently collects approximately \$900K on an estimated \$180M in gross receipts from billboard companies. This is effectively a tax rate of about 0.5%. The Mayor's Office has proposed to double this percentage to 1% or more. To do so, the City can create a new tax category that applies solely to billboard advertisers and seek voter approval to increase the tax rate on this new category to 1% or higher.</p>	<ul style="list-style-type: none"> Development of ballot measure Placement on the next available ballot (November 2010) Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax County validates election results. City begins to levy new rate and collect revenues. 	\$0	<p>\$0, unless the measure is approved for applicability on a retroactive basis. The January 2011 Business Tax levies are applied to 2010 business tax gross receipts. The January 2012 Business Tax levy would be the first levy that would generate new revenue from this category.</p>	<p>Upon full implementation, the following is an estimate of the annual increase in revenues from each of the following options:</p> <p>1% rate = + \$900K 2% rate = + \$2.7M 5% rate = + \$8.1M</p> <p>Alternatively, the City could adjust the three tax rates that currently apply to billboards to effectuate the additional revenues. This would generate significantly more revenue, but would impact all other businesses taxed under those same categories.</p>
10	Increase TOT tax rate	<ul style="list-style-type: none"> Current tax of 14% on hotel/motel bills. Each 1% increase adds \$1.00 on a hotel bill of \$100/night. Proposal: Increase TOT to 15%. 	<ul style="list-style-type: none"> Development of ballot measure for placement on the next available ballot (Nov 2010) Approval by 50%+1 for a General Tax or 2/3rds vote for a special tax County validates election results. City begins to levy new rate and collect revenues on a monthly basis. 	\$0	<p>\$2.92M, based on 4 months of revenue at the new rate.</p>	<p>\$8.76M annual increase from 1% increase in TOT, based on current data.</p>

11	Special Fire Assessment	<p>Levy a special tax per parcel of property within the City to enable the Fire Department to maintain and enhance fire and paramedic services.</p> <p>Similar to LA County tax approved by the voters in 2002 to fund trauma, emergency and bioterrorism preparedness, in addition to the LA County special tax approved in 1997. Current County tax is \$56.17 for a single family residence. Also applied to commercial, industrial, high rise, special use, and vacant land.</p> <p>In 2009, the County assessed 603,363 single family residential parcels, 108,879 residential income parcels, and 66,419 commercial/industrial parcels in the City of Los Angeles (total 778,661) with a total assessed value of \$413.4B.</p>	<ul style="list-style-type: none"> • Development of ballot measure • Placement on the next available ballot (Nov 2010) • Approval by 2/3rds vote. • County validates election results. • City begins to levy new rate and collect revenues on the next property tax bill. 	\$0	<p>\$0, inasmuch as all property tax levies to be collected in 2010-11 must be filed with the County by August 2010.</p>	<p>\$42.8M annually, upon full implementation at \$55/parcel per year.</p>
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12	Special Library Assessment	<p>Supplement the Charter-mandated appropriation to the Library Department with a special property tax assessment to maintain and enhance library services and to pay for related costs, which are currently paid from the General Fund.</p> <p>The Library's 2009-10 Adopted Budget consists of three funding components: 1) Charter-mandated General Fund appropriation of not less than 0.0175% of assessed value of all property in the City as assessed for City taxes (\$75,463,926); 2) \$7,051,000 in Library revenues; and, 3) \$52,115,617 in related costs, which are paid by the General Fund.</p> <p>The Library Department proposes a \$5 per month parcel tax, with the proceeds dedicated for library purposes including maintaining existing service hours, early childhood reading initiatives, after-school library programs for students, adult literacy and English instruction programs; purchasing new books and materials; funding new and replacement technology; and, paying for related costs.</p>	<ul style="list-style-type: none"> • Development of ballot measure • Placement on the next available ballot (Nov 2010) • Approval by 2/3rds vote. • County validates election results. • City begins to levy new rate and collect revenues on the next property tax bill. 	\$0	\$0, inasmuch as all property tax levies to be collected in 2010-11 must be filed with the County by August 2010.	<p>\$46.7M annually upon full implementation, based on a \$5 per month levy on all 778,661 parcels in the City.</p> <p>In 2007, the cities of San Francisco, Pasadena, Monrovia and Davis all passed a parcel tax to maintain library services. In 2009, a proposal to extend a library parcel tax passed in the city of South Pasadena, and a proposal for a new library parcel tax failed in the city of Pacific Grove.</p>
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13	Wastewater franchise fee	<ul style="list-style-type: none"> • The City enacted this fee in 1995-96 and collected it as part of the wastewater fee. • The fee was phased out beginning in 2000. • The Court of Appeals struck down a City of Roseville in-lieu franchise fee of 4% they imposed on three municipal utilities (water, sewer, collection services) because it violated Prop 218 by imposing a tax, rather than a fee for service. • The City has issues with surrounding jurisdictions on Wastewater. The City could re-institute this fee and share it with participating cities. 	<ul style="list-style-type: none"> • Development of ballot measure • Placement on the next available ballot (Nov 2010) • Approval by 2/3rds vote • County validates election results. • City begins to levy new rate and collect revenues on the next property tax bill. 	\$0	<p>\$12M based on 4 months of revenue. This amount would be reduced by the amount shared with neighboring jurisdictions.</p>	<p>\$38M estimated full year income, less shared revenue of perhaps \$2-3 million.</p>
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14	Flood Control Assessment (Stormwater pollution abatement Fee)	<ul style="list-style-type: none"> • The City has a Stormwater Pollution Abatement assessment on property tax bills which varies by type of parcel use which produces \$28 million/year. • The typical current rate is \$1.92/mo for a normal single family dwelling and has not changed in 10 years. • Current shortfall is about \$12M to \$37M per year, based on recovery of full costs for the program. • City staff projects significant increases needed over the next 5 years (perhaps 400-450%). • All Counties and some cities or special districts charge on the property tax bill an assessment that recovers their cost of providing flood control & storm water services. • With an assessed value around \$350 billion, this is a tax rate of about .0033¢/\$1 of assessed value on the property tax rate if applied equally to all properties. 	Continue negotiations with the County of Los Angeles and present alternatives to the Council at a future date.	Unknown	Current cost recovery would represent an increase of \$12 million.	<p>NOTE: Current cost recovery is \$12M. For 2011-12 and beyond, \$37M, assuming full cost recovery of all Prop O project maintenance costs, once those projects are fully implemented.</p> <p>Currently, the City is working with the County of Los Angeles to arrive at a long-term solution to fund TMDL and Stormwater Permit mandates. Non-compliance with the NPDES Stormwater Permit can expose the City to civil penalties, fines, federal enforcement action, and third-party liabilities.</p> <p>At this time, City staff recommends deferring consideration of a stormwater fee increase pending the outcome of the City's negotiations with the County of Los Angeles, and to allow for completion of a survey of residents.</p>
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15	Marijuana Dispensary Tax	Motion (Hahn-Koretz) (CF 08-2923-S4), introduced on February 3, 2010, instructs the City Attorney and the CAO to develop a proposal for placement on one of the 2011 ballots a tax on the cultivation of medical marijuana. No details are provided on a proposed tax level. The CAO is instructed to study	CAO and City Attorney to prepare ballot measure for consideration.	\$0	Unknown	In July 2009, voters in the City of Oakland approved the creation of a new Business Tax rate for "Cannabis Businesses" of \$18 for each \$1,000 of gross receipts. Revenues from this assessment were not earmarked for any specific purpose. This tax was projected to generate \$315K for the City of Oakland.
16	Neighborhood Assessments Like BIDS	Initiated by the Mayor, identify one or more neighborhoods in which a package assessment is proposed to fund a bundle of services (e.g., tree trimming, street paving, and expanded library hours) crafted to meet the specific needs of the community that is being assessed, to supplement basic services provided by the City in the area.	Instruct the DONE and the CAO to identify one or more neighborhood councils interested in participating in the development of a 5 year service level agreement, and a ballot measure to fund those supplemental services.	\$0	\$0	The Mayor estimates that this proposal could generate \$1M per year, depending on the scope and scale of the proposal. In 2004, San Francisco enacted a similar mechanism, authorizing the formation of "Community Benefit Districts" which are essentially special benefit districts created to generate a stable revenue source to fund a set of services tailored to the needs of that community, which can include such services as sidewalk cleaning, supplemental security, special lighting, graffiti removal, and neighborhood beautification and decorations.

17	Rental Car tax	<p>In 1998, the City Council asked the City Attorney to explore the legality of a rental car access fee (CF 94-2341), which the City Attorney subsequently reported would be subject to the vote requirements of Proposition 218.</p> <p>A proposal was recently made to explore a tax on rental cars to help address the City's budget deficit. No levy rate was suggested in the proposal.</p> <p>Preliminary analysis indicates a possible conflict with the 1% sales tax limitations in the Revenue & Tax Code.</p>	<p>Instruct the City Attorney and the CAO to explore the potential of a ballot measure that would not violate the Bradley-Burns Uniform Local Sales and Use Tax Law, as well as the feasibility of using the revenues for general purposes.</p>	\$0	Unknown	
18	Gang Reduction and Youth Development Tax	<p>Property based tax to fund gang prevention and intervention programs</p>	<ul style="list-style-type: none"> • Development of ballot measure • Placement on the next available ballot (Nov 2010) • Approval by 2/3rds vote. • County validates election results. • City begins to levy new rate and collect revenues on the next property tax bill. 	\$0	<p>\$0, inasmuch as all property tax levies to be collected in 2010-11 must be filed with the County by August 2010.</p>	<p>\$30M upon full implementation in 2011-12.</p>

PROPOSALS RECENTLY SUBMITTED, REQUIRING ADDITIONAL RESEARCH OR STATE/FEDERAL LEGISLATIVE ACTION

19	Red Light Cameras	<p>As identified by the Mayor, use 63 existing red light cameras in the City to:</p> <ul style="list-style-type: none"> • Cite out-of-state violators • Detecting and citing red light violators who make illegal left turns after the light has turned red • Issue "Anti-Gridlock" citations under LAMC 89.90 	Change in the State's allocation of funding for red light violations	Unknown	Unknown	<p>The Mayor's Office estimates that these changes could generate \$8.96M in year one, and up to \$1.32M more if these violations are treated as civil fines, rather than state law violations.</p>
20	Sales Tax on Internet & Mail Order Sales	<p>As initiated by the Mayor, encourage the State to adopt the "Streamlined Sales and Use Tax Agreement" as Adopted November 12, 2002, and Amended September 30, 2009. The Streamlined Sales Tax Governing Board began in March 2000 with a goal of addressing the <i>Bellas Hess v. Illinois</i> and <i>Quill Corp. v. North Dakota</i> decisions that a state may not require a seller that does not have a physical presence in the state to collect tax on sales into the state. The Court ruled that the existing system was too complicated to impose on a business that did not have a physical presence in the state. The Court said Congress has the authority to allow states to require remote sellers to collect tax.</p>	Introduce resolution to include support for similar measures in the Federal and State Legislative programs.	Unknown	Unknown	<p>The Mayor's Office projects sales tax revenue increases of \$9M per year to the City, based on a State Board of Equalization estimate that the State loses roughly \$1.085B per year to internet and mail order sales.</p> <p>Note: Last year, two measures were introduced at the State Legislature to attempt to capture internet sales tax by seeking to define "in-state presence" where there is a link to an out of state retailer through an entity with a clear in-state presence. Both measures (AB 3X 19 and AB 178) failed.</p>

21	Charge other law enforcement agencies at "market rate" for LAPD training rather than just full cost recovery	City Attorney advises that "market rate", and not just full cost recovery, could be charged by the City if the services can only be provided by a governmental entity. Currently, LAAC 22.239 limits costs charged by the LAPD to "handling and instructing the person" which is interpreted to be cost recovery, only. This Section can be amended to delete that reference enabling the LAPD to charge "market rate" for services, such as training provided to other law enforcement agencies.	Instruct the City Attorney to prepare and present an ordinance to effectuate these changes to the Administrative Code.	Unknown	Unknown
22	Lease surplus jail space at new Metropolitan Detention Center	LAPD exploring feasibility of leasing excess jail space to the federal government as a temporary holding facility prior to arrestees' arraignment. Report anticipated to be completed in two weeks.	LAPD to submit report.	Unknown	Unknown
23	Expand Ambulance Billings	Currently, the City only charges for the cost of transporting patients to the hospital. Explore feasibility of also charging for "treatment/no transport" for any medical treatment provided at the scene.	Instruct the City Attorney, with the assistance of the LAFD, to prepare and present an ordinance revising the City's fee structure for patient transport to add a fee for 'treatment transport'.	Unknown	Unknown

24	New cost recovery fees for the LAFD	<ul style="list-style-type: none"> - Charge Stand By fees for special events. - Charge for the cost of removing standing or rushing water. - Charge individuals for rescue services, as authorized by the State Government Code. - Establish tiered hazardous material storage fee based on volume rather than flat fee. 	Instruct the LAFD and the CAO to analyze the proposed changes and report with recommendations	Unknown					
25	Downtown Congestion Relief Charges	<p>Since February 2003, the city of London has charged a fee for driving private vehicles into downtown during weekdays in an effort to reduce traffic congestion and raise revenues to fund transportation improvements.</p> <p>Generally, congestion pricing is used to reduce congestion and optimize transportation system performance; reduce emissions to meet air quality goals; and identify more efficient means of sustaining revenues to support transportation system investments and associated mitigation needs. There are four main types of pricing strategies:</p> <ul style="list-style-type: none"> • Variably priced lanes, involving variable tolls on separated lanes within a highway, such as Express Toll Lanes or HOT Lanes, i.e. High Occupancy Toll lanes. • Variable tolls on entire roadways – both on toll roads and bridges, as well as on existing toll-free facilities during rush hours. • Cordon charges – either variable or fixed charges to drive within or into a congested area within a city. • Area-wide charges – per-mile charges on all roads within an area that may vary by level of congestion. 	Instruct staff to explore the development of a congestion pricing program for downtown Los Angeles.	\$0					<p>Cities across the nation are looking implementing various types of congestion pricing, however, the emphasis has been on highways and HOT lanes and limited implementation of corridor, facility and parking pricing. Emission fees; cordon/area pricing/vehicle use fees and road space rationing have not yet been implemented in the United States. At best, the implementation of a congestion pricing strategy would require 18-months to two years, due to the detailed technical feasibility studies and public participation and outreach that would be needed. Besides these costs, funding for infrastructure and enforcement would be necessary, particularly for cordon pricing and corridor/road pricing if it is implemented on existing facilities.</p>