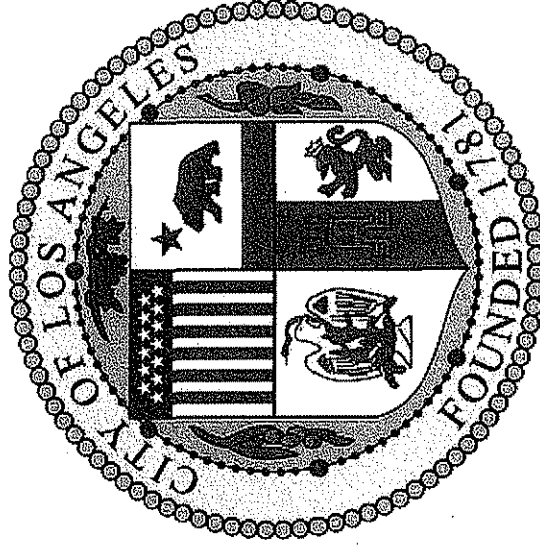


*Report of Business Tax Advisory Committee
Recommending How to Reform
Gross Receipts Business Tax*

April 18, 2012

Date: 5-9-12
Submitted in JBD Committee
Council File No: 09-10114-S8
Item No.: 1
Deputy: BTAC



REVISED

Date 5-9-12

Where We Are Today

- Los Angeles Employs a Widely Unpopular Tiered Gross Receipts Tax Structure
- Business Tax is *Not* Competitive with Neighboring Cities
- Businesses Believe Rates are Too High, with *Ample* Justification
- Classifications are Confusing & Lack Logical Connections
- Many Businesses Have Left, are Leaving or are Threatening to Leave Los Angeles
- Other Businesses Decline to Locate or Expand in Los Angeles
- Increasingly Difficult to Attract New Businesses
- Net Job Loss Despite Sharp Increase in Population
- High, Double-Digit Unemployment
 - **13.3%**, an Alarming *18%* Higher than the State & *51%* Higher than the Nation
 - Underemployment Approaching **20%**

Los Angeles: Population Growth, Employment Decline

City of Los Angeles Population & Employment Trend Compared to Rest of LA County

	Los Angeles City		Rest of LA County	
	Population	Employment	Population	Employment
1980	2,969,181	1,815,494	4,503,580	2,123,508
2010	3,792,621	1,650,417	6,025,984	2,472,846
Change	823,440	(165,077)	1,522,404	349,338
Percent Changes 1980-2010	27.7%	-9.1%	33.8%	16.5%

- Between 1980 and 2010, the Population of the City of Los Angeles has *Grown* by 27.7% while the Number of Jobs Created in the City has *Declined* by 9.1%
- In Comparison, the Population of the Rest of LA County (Excluding LA City) has Grown by a Similar 33.8% while the Number of Jobs Created has *Increased* by 16.5%, Fully 25.6% and 514,000 Jobs *Higher* than LA

Source: Southern California Association of Governments (SCAG) RTP Database

Impressive City, Depressing Job Performance

- LA, Nation's 2nd Largest City with Compelling Comparative Advantages, Should be a Jobs & Business Magnet
 - Two World Renowned Research Universities (USC & UCLA)
 - Highly Skilled Workforce
 - World Leading Industry Sectors Ranging from Entertainment & Fashion to International Trade & Manufacturing
 - Some of the World's Most Valuable Fixed Assets
 - Nation's Largest Seaport (Port of Los Angeles)
 - World's Busiest Origin & Destination Airport (LAX)
 - Nation's Largest Municipally Owned Utility (LADWP)
- So *Why* Has LA Not Only Failed to Produce a *Single* Net New Private Sector Job in *Three Decades*, But Actually *Lost* 165,000 Net Jobs?

LA's Gross Receipts Tax is a Job Killer

- LA City is Unique in LA County in *Underperforming* Job Creation
 - The Difference? LA City Has the Highest Business Tax by a Factor of **9.5 Times*** the Average for the Other 87 Cities in the County
 - City's Highly Visible Position on Top of Business Tax Totem Pole Severely Hinders Business Attraction, Expansion & Retention and thus Job Creation
 - 2010 Survey by *Los Angeles County Business Federation* Found that 56% of Businesses in Rest of LA County View Their City as Business Friendly vs. Only 26% in City of LA
 - As Weak Economy Drives Heightened Competition for Business & Employment, LA's Gross Receipts Tax Looms Larger as Disincentive to Economic Activity & Job Creation
 - Companies Look at Total Cost of Occupancy Within a City *Including* Business Tax (*CB Richard Ellis, Travers Realty*)

Current Rates in 15 Highest Cities in Los Angeles County—“Professions & Occupations” Catch-All

Los Angeles	0.507%
Santa Monica	0.503%
Culver City	0.301%
Inglewood	0.165%
El Monte	0.147%
San Fernando	0.132%
Claremont	0.111%
Compton	0.107%
Gardena	0.101%
Hawthorne	0.100%
Lomita	0.073%
Palmdale	0.056%
Bell	0.044%
Huntington Park	0.040%
Irwindale	0.033%



Source: 2010 Kosmont-Rose Institute
Cost of Doing Business Survey

Current Rates in 15 Largest U.S. Cities —‘Professions & Occupations’ Catch-All

City	Gross Receipts		Employee Tax Per 100 Employees
	Rate		
New York	0.000		*
Los Angeles	0.507		
Chicago	0.000		\$4,320
Houston	0.000		
Philadelphia	0.142		*
Phoenix	0.000		
San Antonio	0.000		
San Diego	0.000		\$560
Dallas	0.000		
San Jose	0.000		\$1,806
Jacksonville	0.000		\$526
Indianapolis	0.000		
San Francisco	0.000		\$105,500
Austin	0.000		
Columbus	0.200		

* Tax Imposed on Income

Current Rates in 15 Other Major Metros in U.S.

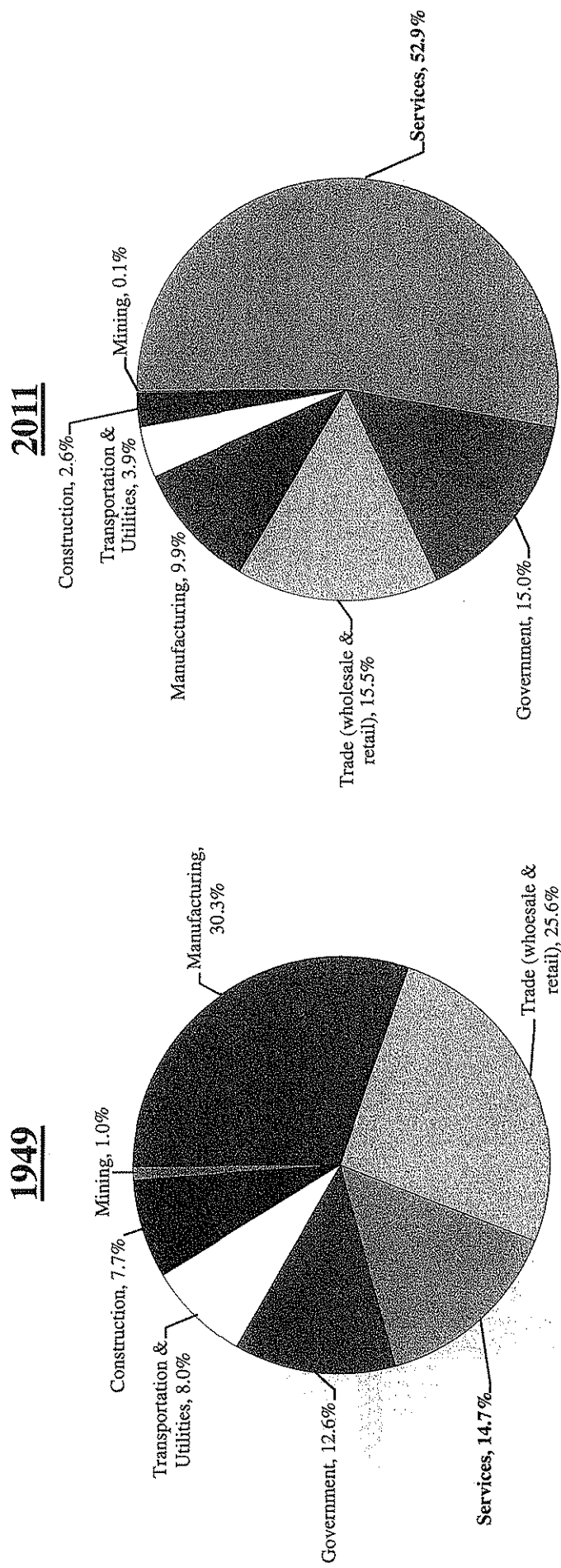
—“Professions & Occupations” *Catch-All*

City	Gross Receipts Rate	Employee Tax Per 100 Employees
Los Angeles	0.507	
Baltimore	0.000	
Boston	0.000	
Cincinnati	0.210	
Cleveland	0.000	
Denver	0.000	\$4,800
Detroit	0.000	
Las Vegas	0.000	\$7,500
Miami	0.055	
Minneapolis	0.000	
New Orleans	0.001	
Oakland	0.252	
Seattle	0.216	
St. Louis	0.000	\$7,500
Washington DC	0.000	

Penal Aspect of “Professions & Occupations” Catch-All Out of Touch with Current Economic Reality

- Gross Receipts Tax 1st Adopted in 1936, when L.A. Economy was Manufacturing Driven
- Rates were Designed to Attract & Retain *Manufacturing* Jobs

Total Nonfarm Employment*



*Los Angeles County

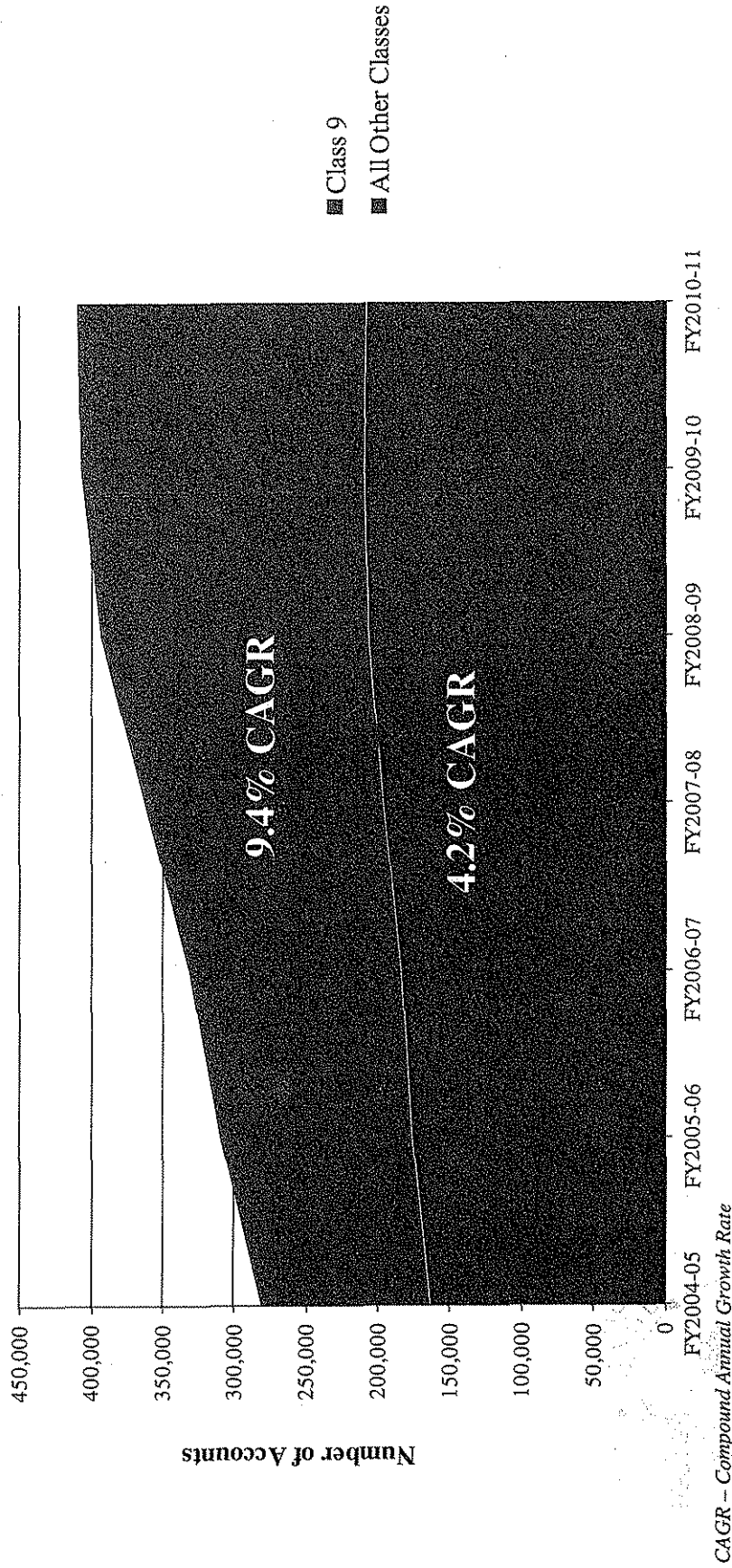
Source: LAEDC

Penal Aspect of ‘Professions & Occupations’ Catch-All Out of Touch with Current Economic Reality

- Stark Reality of 2011 is L.A. Economy is Service-Based
 - Services Businesses were **52.9%** of Total Last Year, Up from Just 14.7% a Half-Century Ago
 - Manufacturing Down to an *Anemic* 9.9% of Total from 30.3%
- Since 1949, L.A. County Services Sector Employment has *Grown* by **860%** while Manufacturing has *Shrunk* by **11%**
- A Gross Receipts Tax Structure that Gouges the Region’s *Primary* Source of Employment is Counterproductive & Self-Defeating
- No Surprise, **43%** of Taxpayers Lumped Into Highest “Catch-All” Category & Pay **59%** of Taxes
- City Tax Should *at Worst* be Neutral and *at Best* be Source of Encouragement for Business Location & Job Creation—L.A.’s Hierarchical, Onerous Gross Receipts Business Tax is an Obstacle, a Deterrent & an *Anachronism*

Professions & Occupations *Catch-All* Has Grown At More Than Double the Rate of All Other Classes

Growth in Number of Accounts by Class



- Class 9, which Not-So-Coincidentally Bears the *Highest* Tax Rate, is “Catch-All” for All Businesses Not Otherwise Classified

— Number of Taxpayers Categorized as Class 9 has Risen from 35.7% of Total in 2004/2005 to 42.6% in 2010/2011 and the Amount of City’s Business Taxes They Pay has Grown from 55.7% to 58.6%

Business Tax Should *Not* Be Impediment to Attracting & Retaining Services Companies

- Attracting Manufacturing Jobs No Mean Feat for L.A. Due to California “Barriers” of Environmental & OSHA Regulations, Permitting, Licensing, Labor Laws, Income Tax, Etc.
- Attracting Services Jobs Much Easier Task for L.A. Except for One Thing: *Substantially* Above-Market Business Tax
- Services Companies Consume Less City Services than Manufacturing & Real Estate-Based Businesses so Logically & Fairly Should be Taxed *Less*, Not *More*
- Once City Tax “Barrier” Lowered, Businesses & Jobs Will Return
- Influx of New Businesses Along with Stemming Tide of Departing Old Businesses Will Expand Tax Base, but That’s Not All...

Lowering Business Tax Rate *Will* Increase Economic Activity, Increasing Other Revenue Streams

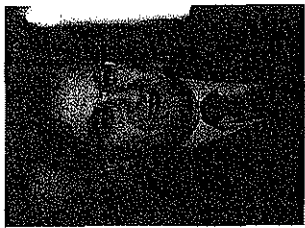
- More Businesses = Greater Demand for Commercial Properties = Higher Prices = Higher Property Tax Receipts for City
- More Businesses = More Employees = Greater Demand for Residential Properties = Higher Property Tax Receipts for City
- More Businesses & More Employees = Greater Purchasing Power = Higher Sales Tax Receipts for City
- Many Services Jobs are Good Quality, Higher Paying Positions—*Exactly* the Kind of Employment City Should be Seeking for its Residents
- Hand-in-Glove Fit with Intellectual Human Capital Generated by L.A. County's 120 Accredited Colleges & Universities
- Imperative L.A. City Attracts its Fair Share of New Businesses Fueled by Entrepreneurship & Innovation—Leading Source of Job Growth

City Policy Makers Take Action

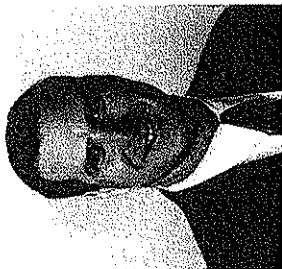
- Business Tax Advisory Committee (“BTAC”) formed in January 2010 at Behest of Mayor & City Council
- 8 Current Appointees to Committee
 - Michael Banner (Parks)
 - Kathy Faulk (Hahn/Buscaino)
 - Saúl Gomez (Villaraigosa)
 - Lloyd Greif (Garcetti)
 - Mel Kohn (Alarcon)
 - Craig Morris (Garcetti)
 - Melissa Patack (Villaraigosa)
 - Mel Wilson (Wesson)
- BTAC’s Mission
 - *“To Reform the Los Angeles City Business Tax to Create a Fair, Transparent, Competitive and Business-Friendly Environment”*

BTAC Members

- Successful investment banking career spanning three decades
 - Founded Los Angeles based middle-market investment bank *Greif & Co.* in 1992
 - Prior - Vice Chairman of *Sutro & Co.* and Managing Director of Investment Banking Division
 - Management Consultant with *Touche Ross & Co. (Deloitte Consulting LLP)*
- Endowment of *Lloyd Greif Center for Entrepreneurial Studies* at USC in 1997
- Chairman, *Los Angeles Police Foundation*, Director, *California Chamber of Commerce & Past Chairman, LAEDC*
- BA - *UCLA (Economics)*, MBA - *USC (Entrepreneurship)* and JD - *Loyola Law School*

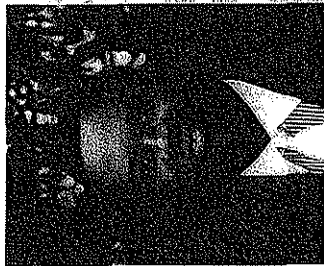


Chairman — Lloyd Greif
President & CEO, *Greif & Co.*



Vice-Chair — Craig Morris
Partner, *KPMG LLP*

- State and Local Tax Partner with 27 years experience in *KPMG LLC's* Los Angeles office where he leads *Pacific Southwest Income and Franchise* tax practice
 - Prior - lead tax partner for many of *KPMG's* audit and tax clients
 - Co-authored *Practical Guide To California Taxes: The Impact Of Economic Crisis* — a book on recent developments in California taxation published in May 2010
- Member, *American Institute of Certified Public Accountants* and *California Society of CPAs*
- BS from *Pepperdine University* – Accounting and MS in Taxation from *Golden Gate University*



Michael Banner
President & CEO
Los Angeles LDC, Inc.

- President and CEO of *Los Angeles LDC, Inc.*, a U.S. Department of Treasury certified Community Development Financial Institution
 - Responsible for infusing \$250 million of capital into low income and distressed communities while stimulating new business and employment opportunities
 - Prior – Vice President at *Security Pacific National Bank*
 - Past Chairman, *Urban Land Institute District Council Executive Committee*
- Trustee, *Community Reinvestment Fund & Member, Union Bank Community Advisory Board – South LA Initiative*
- BA – *Loyola Marymount University (Bus. Admin.)*, USC *Ross Minority Program in Real Estate*

BTAC Members



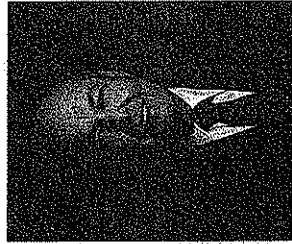
Kathy Faulk
General Manager, *Omni Hotel*

- General Manager of *Omni Hotel Los Angeles* at California Plaza
- 25-year industry veteran having worked with such companies as *Destination Hotels & Resorts*, *Rosewood Hotels*, *Hilton Hotel Corporation*, *Disney Hotels*, *The Mansion on Turtle Creek* and *Richardson Hotels*
- Prior - General Manager positions at both *Hilton Checkers* and *Millennium Biltmore*
- Member, Board of Directors of *LA Inc.*, the *Convention and Visitors Bureau for Los Angeles*, and the *Executive Board for the Downtown Central Business Improvement District*
- BS – *Texas A&M Commerce* (Business Administration)



Saul Gomez
Senior Manager, *Ernst & Young*

- Senior Manager and Project Manager for *Ernst & Young's* West region SALT incentives practice
- During nine-year tenure, has provided SALT negotiated and statutory incentives services to many of *Ernst & Young's* largest manufacturing, consumer/retail and healthcare clients
- Prior - Senior Regional Manager with the *Los Angeles County Economic Development Corporation* where worked alongside State, counties, and cities to retain and attract major companies to California
- BS – *UC Berkeley* (Business Administration)

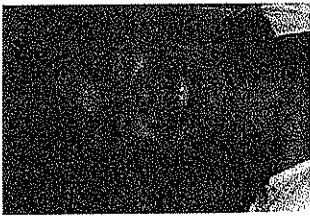


Mel Kohn
Former Managing Partner
Kirsch, Kohn & Bridge LLP

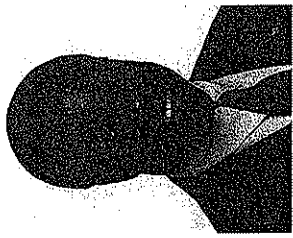
- Past Managing Partner of *Kirsch, Kohn & Bridge LLP*, *Certified Public Accountants*
- Member of the *American Institute of Certified Public Accountants* and *California Society of Certified Public Accountants (CalCPA)*
- Past Member of the Board of Directors of the Los Angeles Chapter of *CalCPA*
- Current Co-Chair of the San Fernando Valley Attorney/CPA Discussion Group
- Board Member, *Valley Industry & Commerce Association* and *Valley Economic Development Center*
- BS from *UCLA* – Business Administration

BTAC Members

- Vice President, State Government Affairs for MPAA
 - Has represented major motion picture studios in state and local government relations since 1997
 - Prior – worked in the United States Senate on the legal staff of the Senate Judiciary Committee and as counsel to the Chairman of the Senate Ethics Committee
 - Began legal career in Chicago as an associate with law firms *Friedman & Koven* and *Sachnoff & Weaver*, specializing in labor and employment law
- Serves on the Budget and Finance Committee of *Temple Beth Am* in Los Angeles
- BS – *Cornell University* (Industrial and Labor Relations), JD – *Boston University School of Law*
- Entrepreneur and real estate broker with over 23 years of experience, recipient of the Distinguished Realtor of the Year Award & former member, *LA City Fire Commission*
- Director, *Metropolitan Transportation Authority (MTA)*, Past Chairman, *United Chambers of Commerce of San Fernando Valley* and Founding Board Member, *Valley Economic Alliance*
- President of the *Southland Regional Association of Realtors*, California's largest local real estate tradegroup, and Member of the *California State University President's Advisory Board*
- BS – *California State University – Northridge* (Business Administration)



Melissa Patack
VP, State Government Affairs
Motion Picture Association of
America, Inc.



Mel Wilson
Altera Real Estate Mel
Wilson & Associates

BTAC Goes to Work

- Over the Past Two and a Half Years, BTAC Has Held 35 Public Meetings and Countless Subcommittee Meetings, Hearings and Forums with
 - Mayor’s Office
 - City Council Members
 - State and Local Taxation (“SALT”) Professionals
 - Community Members
 - Entrepreneurs
 - Business Executives
 - City Staff/Proprietary Departments
 - Academicians and Economists
 - Business Organizations
 - County Officials

BTAC's Initial Recommendations

- Since January 2010, BTAC Has Made Numerous Tax Reform Recommendations That Have Been Implemented To
 - Attract New Business & Bring Employment to Los Angeles
 - 3-Year Business Tax Exemption for New Businesses
 - Create Consistency, Fairness and Transparency in Administration of the Business Tax
 - Development & Adoption of a Taxpayer's Bill of Rights
 - Expansion of Board of Review to Consist of a Majority of Public Members
 - Establishment of Clearly Defined Statute of Limitations for Tax Audits
 - Made Prior Board of Review Decisions on Business Classification Retroactively Irreversible if No Change in Business Facts or Circumstances
 - Increase Compliance with City Tax Code by Businesses
 - Established 3-Year Voluntary Disclosure Program to Incentivize Businesses Currently Not on City's Tax Rolls to Come Forward

Goals of Business Tax Code Reform

- Spur Job Creation
- Achieve Simplification
- Increase Compliance
- Foster Transparency
- Increase Tax Base
- Make It Predictable & Fair
- Diminish Controversy
- Signal Los Angeles is Worker *and* Business Friendly
& Does Not Burden its Constituents in an Already
Hyper-Competitive Market

Benefits of Gross Receipts Tax Reform

- Business Tax Lowered as a Barrier to Starting Up in, Relocating to or Staying in Los Angeles
- Increased Cash Flow for Businesses to Expand in City
- Simplifies Tax Code & Reduces Potential for Manipulation and Abuse
- Leads to:
 - Job Growth
 - Business & Economic Expansion
 - Increased Sales Tax Base
 - Businesses
 - Employees
 - Increased Property Values & Taxes
 - Increased Revenues from Permits, Licenses & Fees
 - Increased Base of Businesses with Attendant Multiplier Effects
- **Brings Tax Code into Alignment with Reality of 21st Century Highly Mobile, Service-Based Economy vs. Manufacturing-Based when 1st Conceived 76 Years Ago**

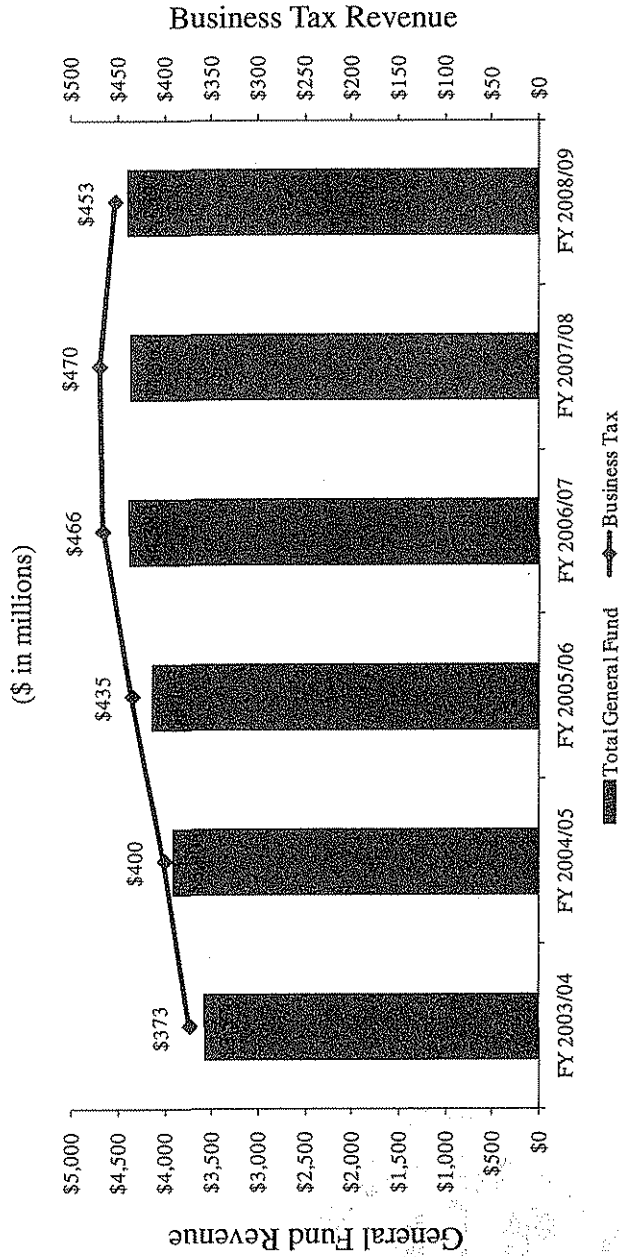
Benefits of Gross Receipts Tax Reform (Cont.)

- LA's Onerously High Gross Receipts Tax is Not Just Unfriendly to Business—It's Unfriendly to *Workers*, the *City* and the *Quality of Life* for All Residents
- Businesses Are the Creators of Private Sector Jobs, Which Induce & Indirectly Create More Jobs
- Together, These Direct, Indirect & Induced Jobs Generate Local & State Tax Revenue that Supports Social Programs Which Support LA's Quality of Life
- Hence, LA's Vastly More Burdensome Business Tax is Not Only Business Unfriendly—*It's Worker, City & Quality of Life Unfriendly, Too*
- Reduction in Jobs, Budgetary Resources & Quality of Life Due to Highly Reviled Gross Receipts Tax is Even More Pronounced Since Neighboring Cities Have Either Much Lower or No Business Taxes
- More Businesses Locating in City Also Increases Local Philanthropy
 - Corporate Giving is Greatest Where Company is Headquartered

No ‘Leap of Faith’ That Reducing Taxes Will Spur Growth in Economic Activity & Revenues

- Not Uncharted Territory as City Has Done It Before: Across-the-Board 15% Reduction in Business Taxes Phased in Over 5 Years
 - Business Tax Receipts Grew 21%, from \$373 Million in FY 2003/04 to \$453 Million in FY 2008/09
 - Similarly, General Fund Receipts Grew 23%, from \$3.576 Billion in FY 2003/04 to \$4.397 Billion in FY 2008/09

General Fund and Business Tax Revenues



No “Leap of Faith” That Reducing Taxes Will Spur Growth in Economic Activity & Revenues (Cont.)

- The Number of Taxpayers Grew 40%, from 277,973 in FY 2003/04 to 388,784 in FY 2008/09
- And, although Economists Dr. Charles Swenson of the *University of Southern California* and *Blue Sky Consulting Group* Disagree on the Exact Magnitude of the Impact, They Both Agree that Reducing Business Taxes Will Increase Economic Activity, Jobs and Other Indirect Revenues
- Leading Expert Economist Timothy Bartik, cited by both Swenson and Blue Sky and Author of *Who Benefits From State and Local Economic Development Policies*, states “If a Given Small Suburban Jurisdiction within a Metropolitan Area [e.g., Los Angeles within LA County] Raises its Business Taxes by 10%, it can Expect in the Long Run a Reduction in its Business Activity by from 10% to 30%”

No ‘Leap of Faith’ That Reducing Taxes Will Spur Growth in Economic Activity & Revenues (Cont.)

- Bartik also observed that “...Tax Effects on Business Location Decisions are Generally Much Larger for Intrametropolitan Business Location Decisions than for Intermetropolitan or Interstate Business Location Decisions. We Would Expect this Pattern Because a *Potential Business Site is Likely to Have Closer Substitutes, Offering Very Similar Profits, within that Same Metropolitan Area than in Some Other State or Metropolitan Area.*”
- Bartik’s Comprehensive Analysis Examined 57 Studies of Companies’ Reaction to State and Local Taxes During the 1950s-1980s. He concluded that “the Findings of Recent Studies Differ from those Studies of the 50s, 60s and mid-70s which Generally Did Not Find Statistically Significant and Negative Effects of Taxes on State and Local Growth...[However] the Most Recent Business Location Studies have some Evidence of **Significant Negative Effects of State and Local Taxes on Regional Business Growth.**”
- Bartik’s Seminal Work was Published in 1991; the *Internet* was 1st Commercialized in 1995. Forever Changing the Face of Global Commerce. The Logical Conclusion of Bartik’s Observation Above is that a 10% Change in City Business Taxes *Today* Would Have a Significantly *Greater* Impact on the Level of Business Activity than 10%-30% Since Modern Technology and Los Angeles’ Service-Based Economy Makes Businesses Far More Portable than Ever Before.

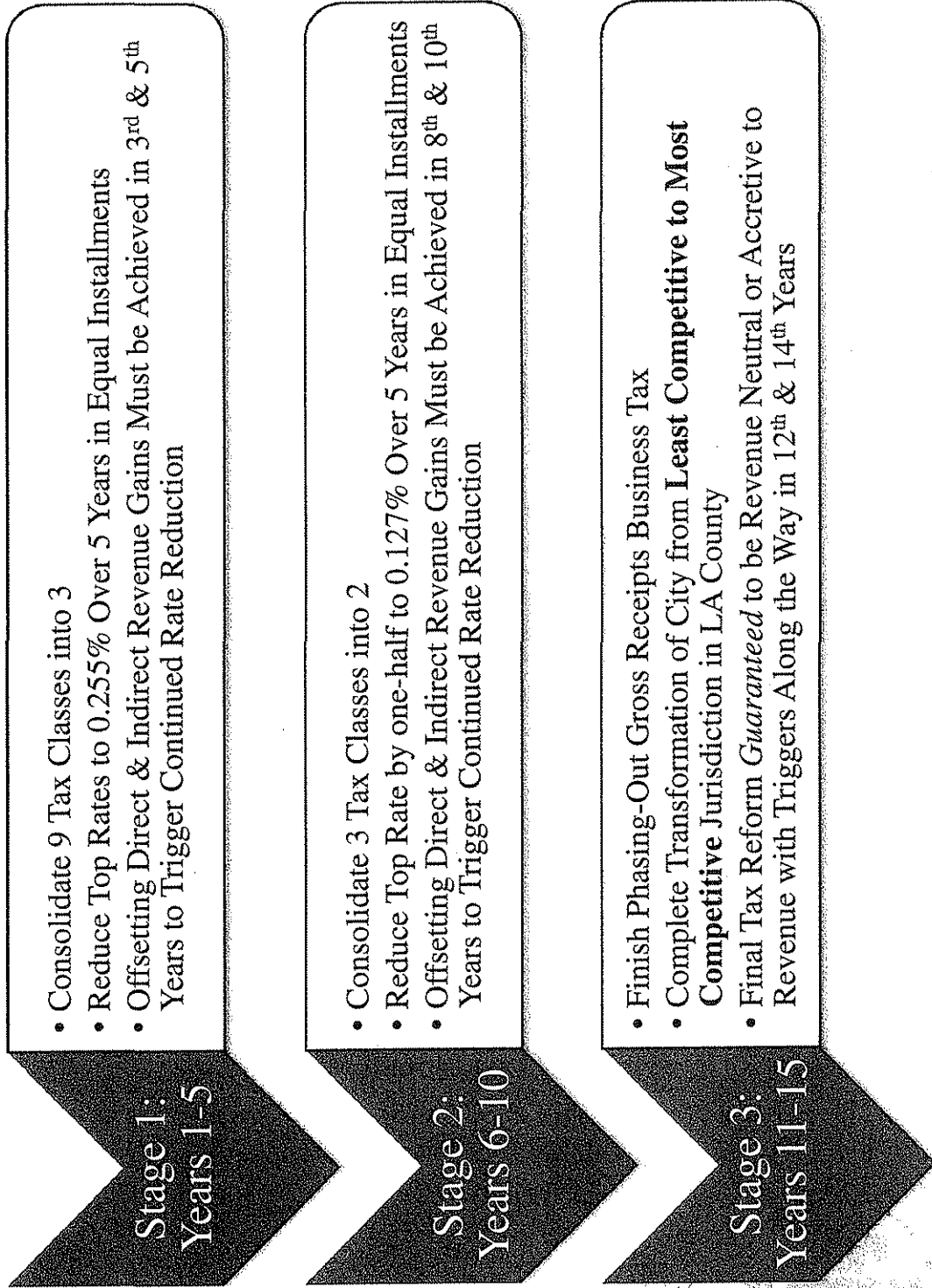
Eradicate The Most Visible Reason *Not* To Do Business

In Los Angeles: The 0.507% Job-Killer Rate

- “Professions & Occupations” and “Miscellaneous Services” (0.356% Rate)—City’s Two Highest Rate Classes—Are Where All the High-Paying Service Jobs Emanate
- Because They are the “Catch-All” Categories, Most Innovative New Businesses—the Entrepreneurial Engines that Fuel Economic Growth and the Preponderance of New Jobs—End Up So Classified
 - Clean Tech
 - Emerging Technologies
 - Engineering, Research & Development
- LA Risks Stunting the Growth of its Nascent “Silicon Beach”
- By the Time a Fledgling New Business Takes Shape to be More Properly Categorized, It’s *Gone*—Chased Away by *Punitively* High Business Tax Rates

Tax Simplification, Transparency & Equity

Proposed Timeline



Tax Simplification, Transparency & Equity

Stage 1: Simplify & Provide Relief to Taxpayers Paying Highest Rates

FY 10-11		Before			After			
Gross Receipts	Description	# of Accounts	Class	Rate	Taxes Paid	Class	Rate	Taxes Paid
\$5,040,721,782	Child/Multimedia/Phone/Tugboat	7,319	1	0.101%	\$5,091,129	1	0.101%	\$5,091,129
30,921,035,644	Wholesale Sales	34,025	2	0.101%	31,230,246	1	0.101%	31,230,246
18,521,246,457	Rental/Swap/Hotel/Antique	52,269	3	0.127%	23,521,983	2	0.127%	23,521,983
47,294,653,543	Retail Sales	91,964	4	0.127%	60,064,210	2	0.127%	60,064,210
3,353,225,984	Radio/TV/Theater	4,402	5	0.127%	4,258,597	2	0.127%	4,258,597
4,937,632,549	Prop/Coll/Sport/Vend/Freight	5,954	6	0.255%	12,590,963	3	0.255%	12,590,963
522,307,619	Broker/Telemarketing	2,301	7	0.315%	1,645,269	3	0.255%	1,331,884
3,877,183,427	Miscellaneous Services	9,535	8	0.356%	13,802,773	3	0.255%	9,886,818
48,684,338,462	Professions/Occupations/HMO	201,823	9	0.507%	246,829,596	3	0.255%	124,145,063
15,321,269,307	Contractor	35,640	Other	0.101%	15,474,482	1	0.101%	15,474,482
395,021,961	Contractor- "B" Gross	17,221	Other	0.255%	1,007,306	3	0.255%	1,007,306
512,752,941	Sale- Real Property	376	Other	0.255%	1,307,520	3	0.255%	1,307,520
	Motion Picture Prod	4,771	Other		2,187,943	Other		2,187,943
	Transporting Persons for Hire	2,997	Other		963,451	Other		963,451
	Trucking/Hauling	886	Other		108,117	Other		108,117
	Other	2,703	Other		1,044,013	Other		1,044,013
		474,186			\$421,127,598			\$294,213,725

Total Reduction in Taxes

\$126,913,873

FY 10-11		Consolidated			
Gross Receipts	Description	# of Accounts	Class	Rate	Taxes Paid
\$51,283,026,733	Wholesale	76,984	1	0.101%	\$51,795,857
69,169,125,984	Retail & Media	148,635	2	0.127%	87,844,790
58,929,236,959	Services & Professions	237,210	3	0.255%	150,269,554
	Other	11,357			4,303,524
		474,186			\$294,213,725

- Gradually consolidating all 9 classes into 3 (Wholesale, Retail & Media and Services & Professions) over 5 years will simplify the tax code for businesses, minimize classification "gamesmanship" and enhance the City's competitiveness with surrounding municipal jurisdictions

Rationale for Initially Only Changing Rates of Classes 7-9 While Leaving 1-6 Unchanged

- Classes 1 & 2 Already at Low Enough Rate (.101%) to Avoid Being “Tipping Point” So Combine them into New Class 1 (*Wholesale*)
- Classes 3-5 are Next Highest Rate but Still Within Reason (.127%) as Consist of Land Use-Based Businesses that Require Higher Levels of City Services Warranting the Slightly Higher Rate So Combine them into New Class 2 (*Retail & Media*)
- Class 3 Includes Office & Commercial Properties Tied to In-City Real Estate so Flight Not a Factor
- Classes 4 & 5 Include Retail Stores & Theaters also Locked into In-City Real Estate
- Classes 6-9 Include Professional Services Firms, Telemarketers, Collection Agencies, Brokers and Personal Services Firms—All Highly Mobile for which Flight is a Viable and Real Option So Combine them into New Class 3 (*Services & Professions*)
- Tax Rates for Classes 7 (.315%), 8 (.356%) & 9 (.507%) are Onerous & Non-Competitive to Point of Making Flight from City a Reality

Prudent, Responsible Tax Reform

- 15-Year Plan to Simplify, Reform and Ultimately Phase-Out Gross Receipts Tax has Built-In “Safety Belt” to Protect City Budget Designed to Ensure Revenue Neutrality from the Tax Reform

- Prior to Implementation of 1st Year of Rate Reductions, Base Year will be Set at Current Amount of City Receipts of both Direct & Indirect Revenues Tied to Level of Economic Activity

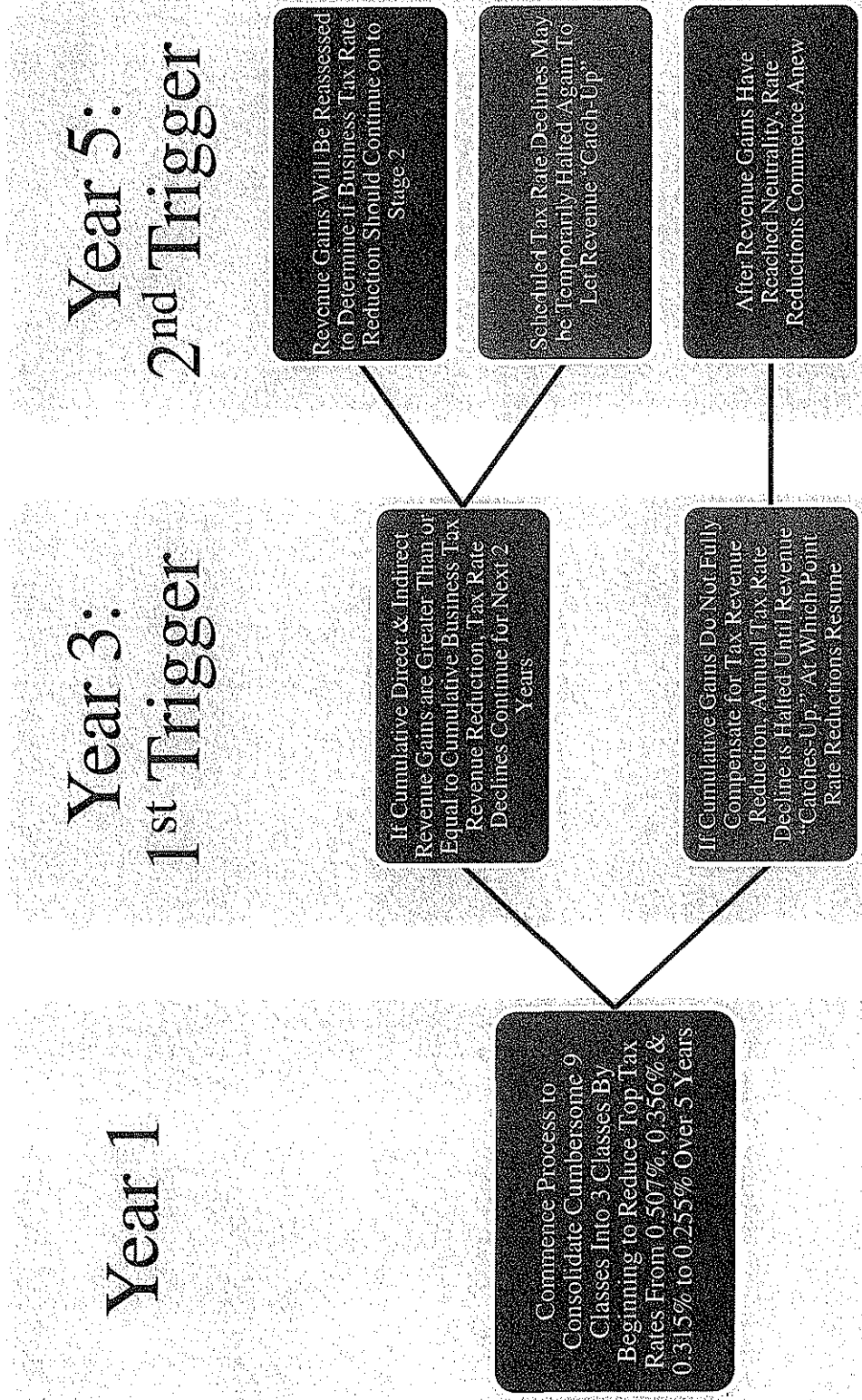
- Business Taxes
- Sales Taxes
- Property Taxes (Real & Personal)
- Utility Taxes
- Licenses, Permits & Fees
- Transient Occupancy Taxes
- Documentary Transfer Taxes
- Parking Users’ Taxes
- Power Revenue Transfers
- Parking Fines
- Residential Development Taxes
- Other Economy-Sensitive Taxes, Fees & Assessments

Prudent, Responsible Tax Reform (Cont.)

- After 3rd Year of Stage 1 Gross Receipts Tax Simplification/Reduction—at Which Time 0.507% Rate will have Declined to Level of Next Highest Rate (0.356%)—Cumulative Level of Direct & Indirect City Revenues Impacted by Economic Activity will be Compared to Cumulative Amount of Business Tax Reductions (both Calculated from Base Year Levels)
 - If such Gain in City Revenues is Equal to or Greater than Amount of Reduction in Business Taxes, 4th & 5th Years of Business Tax Reduction will be Triggered, Making Classes 6-9 all Uniformly at 0.255% (the New Class 3)
 - If such Gain in City Revenues is Less than Amount of Reduction in Business Taxes, 4th & 5th Years of Business Tax Reductions will be Temporarily Deferred Until such Time as Cumulative Revenue Gains Equal or Exceed Cumulative Amount of Business Tax Reductions
- Same “Gut Check” Procedure Will Occur at the End of 5th, 8th, 10th, 12th and 14th Years of Business Tax Simplification & Elimination Plan
- Objective & Expectation is that *Simplification*—from 9 Classes to 3 Classes (ideally, within 5 Years), from 3 Classes to 2 Classes (within 10 Years) and from 2 Classes to No Classes (Within 15 Years)—and *Reduction*—from Rates of 0.101%-0.507% to 0.101%-0.255% (ideally, within 5 Years) from 0.101%-0.255% to 0.101%-0.127% (within 10 Years) and from 0.101%-0.127% to Zero Percent (within 15 Years) will be, at Worst, Revenue Neutral and, at Best, Significantly Revenue Positive

Tax Simplification, Transparency & Equity

Timeline



Tax Simplification, Transparency & Equity

Stage 1—Consolidation of Classes: Five-Year Phase-In

Class	FY 10-11 Gross Receipts	Year 1		Year 2		Year 3		Year 4		Year 5	
		Rate	Taxes Paid	Assuming 20% Reduction Rate	Taxes Paid	Assuming 40% Reduction Rate	Taxes Paid	Assuming 60% Reduction Rate	Taxes Paid	Assuming Full Reduction Rate	Taxes Paid
1	\$5,040,721,782	0.101%	\$5,091,129	0.101%	\$5,091,129	0.101%	\$5,091,129	0.101%	\$5,091,129	0.101%	\$5,091,129
2	30,921,035,644	0.101%	31,230,246	0.101%	31,230,246	0.101%	31,230,246	0.101%	31,230,246	0.101%	31,230,246
3	18,521,246,457	0.127%	23,521,983	0.127%	23,521,983	0.127%	23,521,983	0.127%	23,521,983	0.127%	23,521,983
4	47,294,653,543	0.127%	60,064,210	0.127%	60,064,210	0.127%	60,064,210	0.127%	60,064,210	0.127%	60,064,210
5	3,353,225,984	0.127%	4,258,597	0.127%	4,258,597	0.127%	4,258,597	0.127%	4,258,597	0.127%	4,258,597
6	4,937,632,549	0.255%	12,590,963	0.255%	12,590,963	0.255%	12,590,963	0.255%	12,590,963	0.255%	12,590,963
7	522,307,619	0.315%	1,645,269	0.303%	1,582,592	0.291%	1,519,915	0.291%	1,519,915	0.291%	1,519,915
8	3,877,183,427	0.356%	13,802,773	0.336%	13,019,582	0.316%	12,236,391	0.316%	12,236,391	0.316%	12,236,391
9	48,684,338,462	0.507%	246,829,596	0.457%	222,292,689	0.406%	197,755,783	0.406%	197,755,783	0.406%	197,755,783
Other			22,092,832		22,092,832		22,092,832		22,092,832		22,092,832
			\$421,127,598		\$395,744,823		\$370,362,049		\$370,362,049		\$370,362,049
Annual Reduction in Business Tax			\$25,382,775		\$25,382,775		\$25,382,775		\$25,382,775		\$25,382,775
Cumulative Reduction in Business Tax			\$25,382,775		\$76,148,324		\$76,148,324		\$76,148,324		\$76,148,324

Annual Reduction in Business Tax
Cumulative Reduction in Business Tax

Class	FY 10-11 Gross Receipts	Year 3		Year 4		Year 5	
		Rate	Taxes Paid	Assuming 80% Reduction Rate	Taxes Paid	Assuming Full Reduction Rate	Taxes Paid
1	\$5,040,721,782	0.101%	\$5,091,129	0.101%	\$5,091,129	0.101%	\$5,091,129
2	30,921,035,644	0.101%	31,230,246	0.101%	31,230,246	0.101%	31,230,246
3	18,521,246,457	0.127%	23,521,983	0.127%	23,521,983	0.127%	23,521,983
4	47,294,653,543	0.127%	60,064,210	0.127%	60,064,210	0.127%	60,064,210
5	3,353,225,984	0.127%	4,258,597	0.127%	4,258,597	0.127%	4,258,597
6	4,937,632,549	0.255%	12,590,963	0.255%	12,590,963	0.255%	12,590,963
7	522,307,619	0.279%	1,457,238	0.267%	1,394,561	0.255%	1,331,884
8	3,877,183,427	0.295%	11,453,200	0.275%	10,670,009	0.255%	9,886,818
9	48,684,338,462	0.356%	173,218,876	0.305%	148,681,970	0.255%	124,145,063
Other			22,092,832		22,092,832		22,092,832
			\$344,979,274		\$319,596,500		\$294,213,725
Annual Reduction in Business Tax			\$25,382,775		\$25,382,775		\$25,382,775
Cumulative Reduction in Business Tax			\$152,296,647		\$253,827,746		\$355,358,844

Annual Reduction in Business Tax
Cumulative Reduction in Business Tax

- The initial consolidation of classes and gradual reduction in tax rates will occur over a 5-year time frame which should allow indirect revenue gains and incremental business taxes from influx of new businesses to result in revenue neutrality

Tax Simplification, Transparency & Equity

Rates in 15 Highest Cities in Los Angeles County—"Professions & Occupations" Catch-All

	<u>Current.</u>		<u>Proposed after Stage 1</u>
Los Angeles	0.507%	Santa Monica	0.503%
Santa Monica	0.503%	Culver City	0.301%
Culver City	0.301%	Los Angeles	0.255%
Inglewood	0.165%	Inglewood	0.165%
El Monte	0.147%	El Monte	0.147%
San Fernando	0.132%	San Fernando	0.132%
Claremont	0.111%	Claremont	0.111%
Compton	0.107%	Compton	0.107%
Gardena	0.101%	Gardena	0.101%
Hawthorne	0.100%	Hawthorne	0.100%
Lomita	0.073%	Lomita	0.073%
Palmdale	0.056%	Palmdale	0.056%
Bell	0.044%	Bell	0.044%
Huntington Park	0.040%	Huntington Park	0.040%
Irwindale	0.033%	Irwindale	0.033%

- Simplified and lowered tax code will make the City significantly more competitive compared to surrounding municipal jurisdictions and far more *job- and business-friendly*

Proposed Stage 1 Rate Change—Los Angeles vs. Select Other Competing L.A. County Cities

	Current Rate	Variance (vs. L.A.)	Proposed Rate	Variance (vs. L.A.)
Los Angeles	0.507%	0.000%	0.255%	0.000%
Pasadena	0.108%	-0.399%	0.108%	-0.147%
Long Beach	0.027%	-0.480%	0.027%	-0.228%
Burbank	0.009%	-0.498%	0.009%	-0.246%
Culver City	0.003%	-0.504%	0.003%	-0.252%
Hawthorne	0.001%	-0.506%	0.001%	-0.254%
Torrance	0.001%	-0.506%	0.001%	-0.254%
Glendale	0.000%	-0.507%	0.000%	-0.255%

Tax Simplification, Transparency & Equity

Stage 2: Five-Year Reduction in New Class 3 Rate

Class	FY 10-11 Gross Receipts	Year 5		Year 6		Year 7	
		Consolidated Classes Rate	Taxes Paid	Assuming 20% Reduction Rate	Taxes Paid	Assuming 40% Reduction Rate	Taxes Paid
1	\$51,283,026,733	0.101%	\$51,795,857	0.101%	\$51,795,857	0.101%	\$51,795,857
2	69,169,125,984	0.127%	87,844,790	0.127%	87,844,790	0.127%	87,844,790
3	58,929,236,959	0.255%	150,269,554	0.229%	135,183,670	0.204%	120,097,785
Other			4,303,524		4,303,524		4,303,524
			\$294,213,725		\$279,127,841		\$264,041,956

Annual Reduction in Business Tax

\$15,085,885

Cumulative Reduction in Business Tax

\$15,085,885

\$45,257,654

Class	FY 10-11 Gross Receipts	Year 8		Year 9		Year 10	
		Assuming 60% Reduction Rate	Taxes Paid	Assuming 80% Reduction Rate	Taxes Paid	Assuming Full Reduction Rate	Taxes Paid
1	\$51,283,026,733	0.101%	\$51,795,857	0.101%	\$51,795,857	0.101%	\$51,795,857
2	69,169,125,984	0.127%	87,844,790	0.127%	87,844,790	0.127%	87,844,790
3	58,929,236,959	0.178%	105,011,900	0.153%	89,926,016	0.127%	74,840,131
Other			4,303,524		4,303,524		4,303,524
			\$248,956,071		\$233,870,187		\$218,784,302

Annual Reduction in Business Tax

\$15,085,885

\$15,085,885

Cumulative Reduction in Business Tax

\$90,515,308

\$150,858,847

\$211,202,385

- Further *halving* of the new Class 3 top rate of 0.255% to the new Class 2 rate of 0.127% over a five-year time period will increasingly lower the City's artificial barrier to heightened economic activity and job growth

Tax Simplification, Transparency & Equity

Rates in 15 Highest Cities in Los Angeles County—“Professions & Occupations” Catch-All

	<u>Current</u>		<u>Proposed after Stage 2</u>
Los Angeles	0.507%	Santa Monica	0.503%
Santa Monica	0.503%	Culver City	0.301%
Culver City	0.301%	Inglewood	0.165%
Inglewood	0.165%	El Monte	0.147%
El Monte	0.147%	San Fernando	0.132%
San Fernando	0.132%	Los Angeles	0.127%
Claremont	0.111%	Claremont	0.111%
Compton	0.107%	Compton	0.107%
Gardena	0.101%	Gardena	0.101%
Hawthorne	0.100%	Hawthorne	0.100%
Lomita	0.073%	Lomita	0.073%
Palmdale	0.056%	Palmdale	0.056%
Bell	0.044%	Bell	0.044%
Huntington Park	0.040%	Huntington Park	0.040%
Irwindale	0.033%	Irwindale	0.033%

- Continuing to simplify and lower the tax code will increase the City’s competitiveness with surrounding municipal jurisdictions

Proposed Stage 2 Rate Change—Los Angeles vs. Select Other Competing L.A. County Cities

	Current Rate	Variance (vs. L.A.)	Proposed Rate	Variance (vs. L.A.)
Los Angeles	0.507%	0.000%	0.127%	0.000%
Pasadena	0.108%	-0.399%	0.108%	-0.019%
Long Beach	0.027%	-0.480%	0.027%	-0.100%
Burbank	0.009%	-0.498%	0.009%	-0.118%
Culver City	0.003%	-0.504%	0.003%	-0.124%
Hawthorne	0.001%	-0.506%	0.001%	-0.126%
Torrance	0.001%	-0.506%	0.001%	-0.126%
Glendale	0.000%	-0.507%	0.000%	-0.127%



Tax Simplification, Transparency & Equity

Stage 3: Complete Elimination of the Business Tax Over Five Years

Class	Gross Receipts	Year 10		Year 11		Year 12	
		Consolidated Classes		Assuming 20% Reduction		Assuming 40% Reduction	
		Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid
1	\$51,283,026,733	0.101%	\$51,795,857	0.081%	\$41,436,686	0.061%	\$31,077,514
2	69,169,125,984	0.127%	87,844,790	0.102%	70,275,832	0.076%	52,706,874
3	58,929,236,959	0.127%	74,840,131	0.102%	59,872,105	0.076%	44,904,079
Other			4,303,524		3,442,819		2,582,114
			\$218,784,302		\$175,027,442		\$131,270,581

Annual Reduction in Business Tax

\$43,756,860

Cumulative Reduction in Business Tax

\$131,270,581

Class	Gross Receipts	Year 13		Year 14		Year 15	
		Assuming 60% Reduction		Assuming 80% Reduction		Assuming Full Reduction	
		Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid
1	\$51,283,026,733	0.040%	\$20,718,343	0.020%	\$10,359,171	0.000%	\$0
2	69,169,125,984	0.051%	35,137,916	0.025%	17,568,958	0.000%	0
3	58,929,236,959	0.051%	29,936,052	0.025%	14,968,026	0.000%	0
Other			1,721,410		860,705		0
			\$87,513,721		\$43,756,860		\$0

Annual Reduction in Business Tax

\$43,756,860

Cumulative Reduction in Business Tax

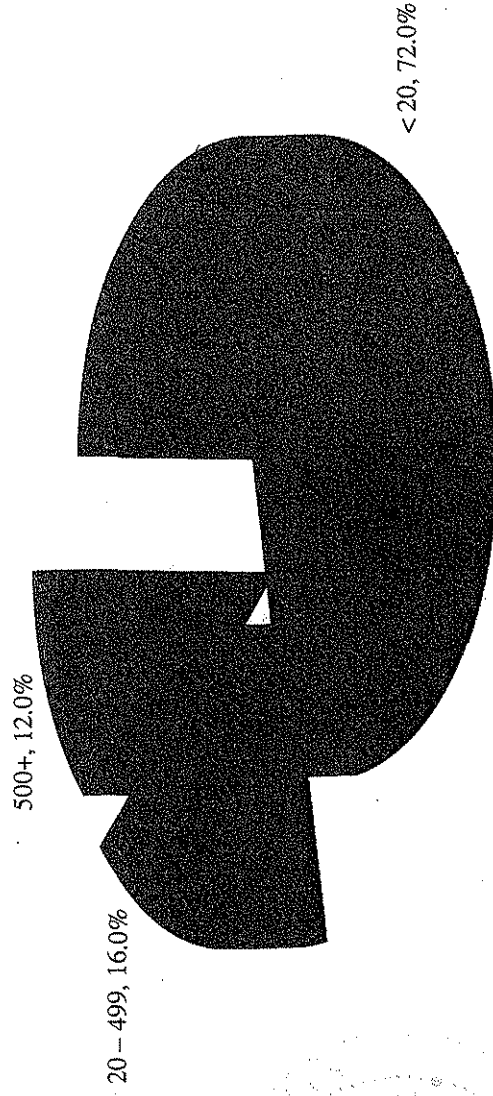
\$612,596,045

- Throughout period of tax reform, LA reaps public relations *bonanza* for being “open for business” and for taking decisive, affirmative action to put Angelinos “back to work”

Business Tax Elimination: Broad-Based & All-Encompassing

- Elimination of Business Tax Must be Across the Board for All Industries & Size Companies
 - Opportunity is for LA Once & for All to *Shatter* its Business Unfriendly Reputation & Reverse 30-Year History of Job Declines
 - Vast Preponderance (88%) of Net New Job Creation Driven by Small Business*

Net New Job Creation by Firm Size (Employees)
1993 - 2006



*Source: U.S. Small Business Administration, U.S. Department of Labor & Census Bureau