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8 May 2012

Date: 5-9-12
Submitted in JBD Committee
Council File No: 09-1914-S8
Item No.: 1
Deputy: BTDC

Honorable Eric Garcetti
Chair
Jobs and Business Development Committee
City of Los Angeles
200 North Spring Street
Los Angeles, CA 90012

Dear Councilmember Garcetti:

The Asian Business Association of Los Angeles (ABA) urges the City of Los Angeles to proceed with the phased elimination of the City's gross receipts business tax, which continues to be a major disincentive for businesses starting up in, relocating to or staying in the City of Los Angeles. The ABA strongly believes that the Business Tax Advisory Committee's (BTAC) recommendation to begin phasing-out the City's burdensome and inequitable gross receipts business tax in a prudent, responsible way will help attract, grow and retain companies within the City of Los Angeles is consistent with our organization's goal to endorse public policies that foster a strong and vibrant economic climate for all businesses.

At the ABA, we firmly believe that strong, healthy communities begin with good jobs. And so, we – as public stewards – must all work together to take bold and courageous actions like this that will create and retain jobs, strengthen and modernize the City's economy, and care for and improve the overall quality of life for all our residents."

A report relative to the phase-out of the gross receipts tax will be discussed at a Special Meeting of the City of Los Angeles Jobs and Business Development Committee on Wednesday, May 9, 2012 and we urge you to take immediate action and move the recommendation forward without further delay.

Sincerely:

Dennis Huang

Dennis J. Huang
Executive Director

cc: Honorable Bernard Parks
Honorable Tom La Bonge

Asian Business Association is the premiere non-profit organization that serves the needs of Asian Pacific Islander business owners and professionals. ABA has been proactively assisting these businesses gain access to economic opportunities and advancement since 1976. ABA has an active membership base of over 500, and offers programs to help these businesses grow.

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MILKEN INSTITUTE
California Center

Date: 5-09-12
Submitted in ~~BUD~~ Committee
Council File No: 09-1914-S6
Item No.: 1
Deputy: BTAC

May 9, 2012

The Mayor of Los Angeles and Honorable Members of the City Council:

In analyzing the work of Professor Charles Swenson of the University of Southern California for the Business Tax Advisory Committee at the request of panel chair Lloyd Greif, we have developed a list of key positives and negatives in the methodology and execution of his work. Overall, we found the work to be solid and effective in its intended goals and results. At the *Milken Institute's* nonpartisan California Center, we firmly believe that examining means to improve the business climate of the city of Los Angeles is essential not only for the continued economic health of the city itself, but also for the surrounding region.

Key Points

Strengths:

1. Professor Swenson employed proper methodologies in engaging the Los Angeles City business tax impact study. His application of regional economic modeling, background research and academic reference on effects of changing tax codes on Los Angeles is appropriate.

2. From an economic analytical and practitioner's perspective, data applications and the utilization of multiple data sets in the study are conventional and the application of method is sound. Based on the description in the study, Professor Swenson leveraged the NETS data set and the City's tax data (LATAX) to yield a unique combination of tax revenues, number of establishments by types and employment by detailed industry classification for modeling. This blending of database construction is perhaps uniquely suitable for this type of study – enabling the tracking of a more detailed interpretation of where and how much an economic impact can take place given an array of tax code changes.

3. We thought that the background research on the topic is suitable and the various benchmarking used with regards to tax code change stimulus on "a typical regional economic system" is appropriate.

4. Benchmarking the proposed tax code changes to two previous actual tax code alterations is perhaps not the best analytically and methodologically, but is reasonable and acceptable as they are used to simulate the potential effect of change since there is no other alternative given the shortage of utilizable data.

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Weaknesses:

1. Although the application of REMI modeling is sufficient to compute the total impact and to construct a framework of economic benefit, the utilization of Type II multipliers and, in particular, a lack of time element in the modeling process could magnify economic benefit or slightly overstate total economic impact.

2. The all-inclusive economic benefit, an aggregate of direct, indirect and induced effects, can underestimate the large size of leakages present in the Los Angeles City economy. With the close proximity of other cities and mini-clusters of various kinds surrounding Los Angeles, the induced effect of an impact study such as this type should be interpreted carefully.

3. The main shortcoming in the study, from *Milken Institute's* perspective, is a lack of explicit time elements in interpretation of the impact. While REMI is an excellent tool to capture economic shocks (in this case, a change of tax code), the model lacks a strong time stamp on allocating impact over a time horizon. Indeed, the model might have captured the totality, but the shape and/or the distribution of impact is not well described in the process. This is relevant since new additions of buildings, physical expansion, and relocation of businesses due to a more favorable tax scheme will have to go through a drawn-out process of applications in licensing, environmental impact reports, and permitting, as well as other approvals. The model has to be calibrated to reflect this uniquely California or Los Angeles government regulatory process.

In conclusion, it is clear that the positives of the methodological approach employed in Dr. Swenson's study given the data constraints far outweigh any shortcomings. Although it is likely the net positive impact of changes to the tax code are slightly overstated, most of this effect would be in the very near term. Given the considerable lack of transparency in the methodology of the critiquing work from the Blue Sky Consulting Group, it was very difficult to fully analyze their own numbers, but the overall information provided by Professor Swenson gives a largely accurate portrayal of the economic impacts of the elimination of the City of Los Angeles' gross receipts business tax, particularly considering the constraints under which he appears to have operated.

Very truly yours,

Kevin Klowden
Director, California Center
Managing Economist
Milken Institute

and

Perry Wong
Director of Research
Milken Institute

LAEDC

LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

Date: 5-9-12
Submitted in SBD Committee
Council File No: 09-1914-S8
Item No.:
Deputy: B.Ae

May 9, 2012

The Los Angeles County Economic Development Corporation (LAEDC) President and Chief Executive Officer Bill Allen submits the following statement into record regarding Subject One (File No. 09-1914-S8) on the agenda at the City of Los Angeles Jobs and Business Development Committee Special Meeting on May 9, 2012:

"The Los Angeles County Economic Development Corporation (LAEDC), an organization dedicated to promoting job growth, economic expansion and preserving the overall global competitiveness of Los Angeles County, urges the City of Los Angeles to proceed with the phased elimination of the City's gross receipts business tax, which continues to be a major disincentive for businesses starting up in, relocating to or staying in the City of Los Angeles. The LAEDC strongly believes that phasing-out the City's burdensome and inequitable gross receipts business tax in a prudent, responsible way will help attract, grow and retain companies within the City of Los Angeles and, in doing so, help reverse the wholly unsustainable and very worrying trend of having added more than 823,000 people, but losing more than 165,000 net jobs in the City of Los Angeles since 1980. At the LAEDC, we firmly believe that strong, healthy communities begin with good jobs. And so, we – as public stewards – must all work together to take bold and courageous actions like this that will create and retain jobs, strengthen and modernize the City's economy, and care for and improve the overall quality of life for all our residents."

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