

SEP 30 2011

JOBS & BUSINESS DEVELOPMENT

MOTION

The City of Los Angeles is facing an unemployment rate of 14.8%, the highest of all major cities in the United States, and is in one of the worst economic downturns in its history. During these times of economic turmoil, the City of Los Angeles must work to create jobs for its residents.

In order to create jobs, the City of Los Angeles must take drastic action to reduce the cost of locating a business within the city as well as expanding current businesses. Currently, the City's gross receipts tax rate is 9.5 times higher than the average for the rest of L.A. County. This is driving businesses out of L.A. and preventing them from locating or expanding in the City.

The City's gross receipts tax generates approximately \$420 million annually, making it the fourth largest revenue stream for the City's General Fund. Given the significance of this tax to the City's budget and the vital city services supported by this revenue, it is important that the City carefully analyze the best way to create jobs without negatively impacting city revenues.

The City has made progress toward addressing issues with the City's gross receipts tax. In 2009, Council President Garcetti reconstituted the Business Tax Advisory Committee (BTAC) to work to make Los Angeles more business friendly, create jobs, and expand the local economy. Since that time, the City Council, BTAC, and the Jobs and Business Development Committee have made several recommendations that have become law, including multi-media tax relief, the small business tax holiday, simplification of the tax code, the Office of Finance's Taxpayer Bill of Rights and several other reforms that focused on providing consistency and certainty for the taxpayer.

On March 2, 2011, the Council approved a contract with Professor Charles Swenson of University of Southern California for an economic study of various proposals made by BTAC. He presented his research to BTAC on August 3, 2011. In his opinion, the most significant increase in jobs could be achieved through eliminating the gross receipts tax and over time could be offset by indirect revenues generated from increased economic activity and job creation. In his analysis, these indirect revenue projections would not be fully realized until five years after the elimination of the gross receipts tax.

On September 14, 2011, BTAC made its recommendation outlining a roadmap for how to completely eliminate the gross receipts tax over a four-year phase-out plan. These recommendations were presented to the Jobs and Business Development Committee on September 28, 2011.

A handwritten signature in black ink, appearing to be the initials 'AAZ' followed by a stylized flourish.

I THEREFORE MOVE that the City Council instruct the Chief Administrative Officer and the Chief Legislative Analyst, in consultation with the Office of Finance and BTAC, report back to the Jobs and Business Development Committee in 30 days with an analysis of how best to eliminate the gross receipts tax in order to create jobs in the City of Los Angeles. The report should include:

- An update on the City's revenue projections
- An analysis of BTAC's recommendation for a four-year phase-out plan, including the gross receipts tax and any indirect revenue gains
- An analysis of which industries or business tax classes create the most jobs and the percentage of small businesses in each business tax class
- A study of how other jurisdictions have implemented similar tax changes and the tax and fee structure of other jurisdictions as it applies to business
- An analysis of all BTAC recommendations
- An analysis of an extension of the business tax holiday
- A study of the impact on the Office of Finance if the gross receipts tax is eliminated
- Any additional recommendations on the best way to eliminate the gross receipts tax

PRESENTED BY: E. G. H.
ERIC GARCETTI
Council President, 13th District

SECONDED BY: Bernard P. Law

SEP 20 2011

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