



MILKEN INSTITUTE
California Center

2-6-13
Submitted in AD HDC TAX POSITION
Committee
Council File No: 09-10114 3161058
Item No.: 1, 2, 3
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.

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.

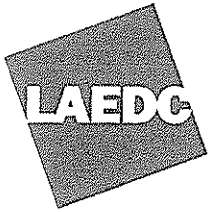
In conclusion, it is clear that the positives of the methodological approach employed in Dr. Swenson's study given the data constraints far outweigh any shortcomings. Although it is likely the net positive impact of changes to the tax code are slightly overstated, most of this effect would be in the 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



LOS ANGELES COUNTY ECONOMIC DEVELOPMENT CORPORATION

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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August 21, 2012

The Honorable Eric Garcetti, Chair
Jobs and Business Development Committee
Los Angeles City Council
200 N. Spring Street, Rm. 470
Los Angeles, CA 90012

SUBJECT: Business Tax Advisory Committee Recommended Plan for Reduction—and Eventual Elimination—of the City Gross Receipts Tax

Dear Councilmember Garcetti:

On behalf of the Valley Industry and Commerce Association (VICA), we urge the City of Los Angeles to proceed with the phased elimination of the city's business tax according to the Business Tax Advisory Committee revised plan recommended on August 2, 2012.

The BTAC plan is a three phase approach, each five years in duration, with the ultimate goal of elimination of the gross receipts tax. The recommendation would phase out the city's burdensome and inequitable gross receipts business tax in a prudent, responsible way.

During Phase One, the nine tax classes are consolidated into three classes, reducing top rates (currently 0.507 percent, 0.356 percent and 0.315 percent) to 0.255 percent over the first five years in equal installments. During Phase Two, the tax classes are further condensed into two and the top rate (0.255 percent) is reduced to 0.127 percent over the following five years. The last phrase will completely phase out the tax by reducing the remaining rates (0.127 percent and 0.101 percent) to zero in equal installments over the final five years.

The plan calls for triggers in the 3rd, 5th, 8th, 10th, 12th and 14th years of the three phases, in order to protect the city against drastic revenue losses. This approach would stop the planned reduction from moving forward, if General Fund revenues do not increase or stay neutral. The plan would allow for the reductions to resume only once revenue gains equalize with the tax cuts.

Rather than simply relying on an increase in business tax, the plan calls for General Fund revenue changes to be measured based on all revenue sources impacted by economic activity. This would not only include business taxes and license and permit fees, but sales, property, utility, transit occupancy, documentary transfer, parking and residential development taxes.

Based on this approach, the city's maximum exposure is \$25 million per year during the first phase and \$15 million per year during the second phase.

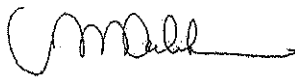
While the decision by the Jobs and Business Development Committee in mid-July includes Phase One, the BTAC proposal establishes a long-term plan with trigger points for each year of the phase-out based on multiple indicators of economic health.

This gradual, common sense approach to the elimination of the gross receipts tax will provide the certainty required for current and potential Los Angeles-based businesses. The work completed by the first BTAC demonstrated that a cumulative 15 percent drop in all rates over a five-year period resulted in a significant growth in the General Fund and Business Tax Revenues. This plan by BTAC II creates the potential for a similar, but significantly greater positive impact on the city economy.

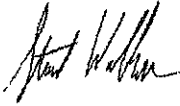
The city's gross receipts tax continues to be a major disincentive for start-up businesses, existing businesses outside the city considering relocation into Los Angeles and current resident businesses considering whether to stay. We urge you to consider the revised BTAC proposal and implement it into further recommendations to the full Council.

The city must ax this tax in a prudent, fiscally responsible manner. The BTAC recommendation is just such a plan.

Sincerely,



David Adelman
Chair



Stuart Waldman
President

CC: The Honorable Antonio Villaraigosa
The Honorable Herb Wesson
The Honorable Ed P. Reyes
The Honorable Jan Perry
The Honorable Paul Krekorian
The Honorable Dennis P. Zine
The Honorable Tom LaBonge
The Honorable Paul Koretz

The Honorable Tony Cardenas
The Honorable Richard Alarcon
The Honorable Bernard C. Parks
The Honorable Bill Rosendahl
The Honorable Mitchell Englander
The Honorable Jose Huizar
The Honorable Joe Buscaino



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Founded 1970

May 1, 2012

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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 Black Business Association (BBA) 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 BBA 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 BBA, 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 BTAC recommendation forward without further delay.

The Black Business Association was founded in 1970 with a mission to advocate and promote the development of African-American owned businesses with the goal of creating a firm economic base that support the self-determination and survival of the African-American and urban community. As a membership organization, we are constantly at the helm, securing innovative means and policies that protect our constituency and their business interests.

Sincerely:

Earl "Skip" Cooper
President & CEO

AFFILIATE ORGANIZATIONS

- Association of Black Women Entrepreneurs
- Black Women's Network
- California Black Chamber of Commerce
- California Council of Black Chamber
- Minority Business Enterprise Legal Defense & Education Fund
- National Black Business Council
- The Greenlining Institute
- The National Association of African American Chambers of Commerce
- The National Black Chamber of Commerce
- Pan African Film & Arts Festival
- Recycling Black Dollars
- Zambia-USA Chamber of Commerce

MEMORANDA OF UNDERSTANDING

- California Manufacturing Technology Center
- Los Angeles Economic Development Corporation
- Los Angeles Minority Business Opportunity Committee
- Southwest Los Angeles County Small Business Development Center
- U.S. Small Business Administration Los Angeles District Office
- Southland Business Development Partnership
- The Urban Leadership Project
- USC Business Expansion Network
- Valley Economic Development Center

Cc: Honorable Bernard Parks Honorable Tom La Bonge

The Black Business Association

Mailing Address: P.O. Box 43159, Los Angeles, CA 90043
Tel: (323) 291-9334 • Fax: (323) 857-4610 • Website: www.bbala.org • E-mail: mail@bbala.org



8 May 2012

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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 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.



October 17, 2012

Mayor Villaraigosa and Los Angeles City Council
via email

Dear Mayor Villaraigosa and City Council Members:

I am writing you regarding the proposal to reform the Gross Receipts Business Tax. While I cannot evaluate the opportunity to replace lost revenues from a reduction in the business tax, I can certainly speak knowledgably about the impediment the Gross Receipts tax represents for growing local businesses and their willingness to remain in Los Angeles.

I am a Founding Partner and President of GRP Partners ("GRP"). GRP is located in Century City and we are the largest Venture Capital fund in Southern California. The 115 companies that my Partners and I have funded as startups employed 20,060 people in Los Angeles County at December 31, 2011. We certainly understand what it takes to create a successful business and what it means to build businesses from a concept into enterprises that employ hundreds or even thousands of people.

When we initially fund a company, it usually employs fewer than five people. Our companies do not generally become profitable until they are generating \$10 million to \$50 million in revenue by which time they employ 70-200 people. In this context, a 0.5% business tax is onerous and it is one consideration in our decision to locate new companies in Santa Monica or Culver City where the gross receipts tax for a corporate headquarters is 1/4 the amount that would be paid in Los Angeles. In fact, GRP currently has 18 portfolio companies located in LA County and only two are located in the City of Los Angeles. Those two were attracted to the lower occupancy costs in West LA and currently have little revenues.

Our portfolio companies located outside LA have made decisions in the past as part of an acquisition to close the Los Angeles offices of acquired businesses in part because of the Gross Receipts Tax. In particular, Los Angeles offices were closed by Costco as part of the Price Club acquisition, by Office Depot as part of the Office Club acquisition and by PETSMART as part of the Pet Stuff acquisition due in part to the added burden the Gross receipts tax represented.

As you consider changing the gross receipts tax, please contemplate the value to the city of new job creation. Perhaps there is a formula whereby tax credits are earned in the current year against the gross receipts tax for each full time job created during the preceding year. This mechanism would directly trade tax revenues for job creation.

You face a difficult challenge in balancing the budget for our complicated city. Please find a way to do so in a manner that encourages job creation instead of driving jobs away. Thank you to each of you for your service to the City and for your consideration of my perspective.

Sincerely,

A handwritten signature in black ink, appearing to read 'S. Dietz', with a stylized flourish at the end.

Steven J. Dietz
President
GRP Partners

Metro Management Systems, Inc.

304 West Century Boulevard
Los Angeles, California 90003
(323) 779-4185
(323) 779-4187 Fax



May 7, 2012

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

Dear Councilmember Garcetti:

I am taking this opportunity to urge 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 City has for too long been headed in the wrong direction. We no longer create jobs for young people and it is clear the young adults in Los Angeles must look toward self-employment and entrepreneurship to secure a middle class lifestyle in our City.

I strongly believe 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 and foster a strong and vibrant economic climate for both new and established businesses.

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

As a business owner in Los Angeles and resident of the ___ District, I support the self-determination and survival of the African-American business community. If the African- American business community is to thrive then this business tax must go!

Sincerely:

A handwritten signature in cursive script that reads "Ella Avery-Smothers".

Ella Avery-Smothers
President

Cc: Honorable Bernard Parks
Honorable Tom La Bonge

Primestor Development, Inc.
A Certified Minority Business Enterprise

201 South Figueroa Street, Suite 300
Los Angeles, CA 90012 USA

Tel: 310.652.1177
Fax: 213.223.5598
www.primestor.com

February 3, 2013

Honorable Paul Krekorian, Chair
Via: eric.villanueva@lacity.org
Ad Hoc Committee on Business Tax Reform
City of Los Angeles
200 North Spring Street
Los Angeles, CA 90012



A Certified Minority Business Enterprise

Dear Councilmember Krekorian:

I am taking this opportunity to urge 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 City has for too long been headed in the wrong direction. We no longer create jobs for young people and it is clear the young adults in Los Angeles must look toward self-employment and entrepreneurship to secure a middle class lifestyle in our City.

I strongly believe 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 and foster a strong and vibrant economic climate for both new and established businesses.

I have reviewed the report relative to the phase-out of the gross receipts tax and understand it will be discussed at a meeting of the Ad Hoc Committee on Business Tax Reform of the Los Angeles City Council very soon. I urge you to take immediate action and move the BTAC recommendation forward without further delay.

As a business owner in Los Angeles, I support the self-determination and survival of the business community. If the Los Angeles business community is to thrive then this business tax must go!

Respectfully,

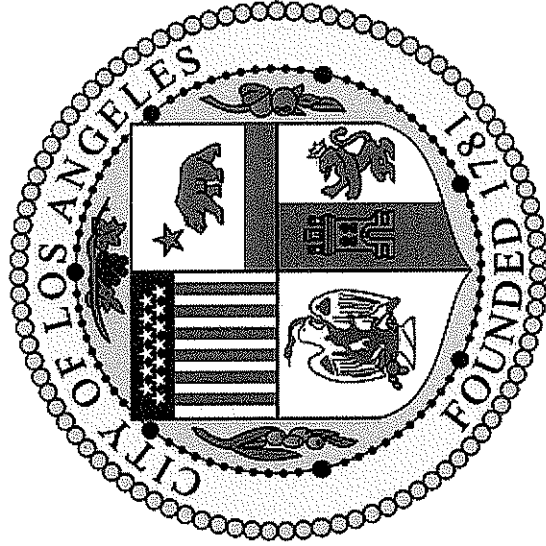
Leandro Tyberg
President
PRIMESTOR DEVELOPMENT, INC.

cc. Councilmember Eric Garcetti, Vice Chair
cc. Councilmember Joe Buscaino
cc. Councilmember Mitch Englander
cc. Councilmember Jose Huizar
cc. Councilmember Dennis Zine

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

August 2, 2012



Date: 2-6-13
Submitted in AP 1106 Tax Reform Committee
Council File No: 09-1014 Se to SS
Item No.: 1,2,3
Prepared by: BTAC

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 ⁽¹⁾	0.503%
Culver City	0.301%
Inglewood	0.165%
El Monte	0.147%
San Fernando	0.132%
El Segundo	0.130%
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%

⁽¹⁾ Unlike Los Angeles' highest "catch-all" tax rate, Santa Monica's top bracket only applies to accountants, attorneys and doctors; Santa Monica's comparable "catch-all" business tax rate is 0.125%

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.

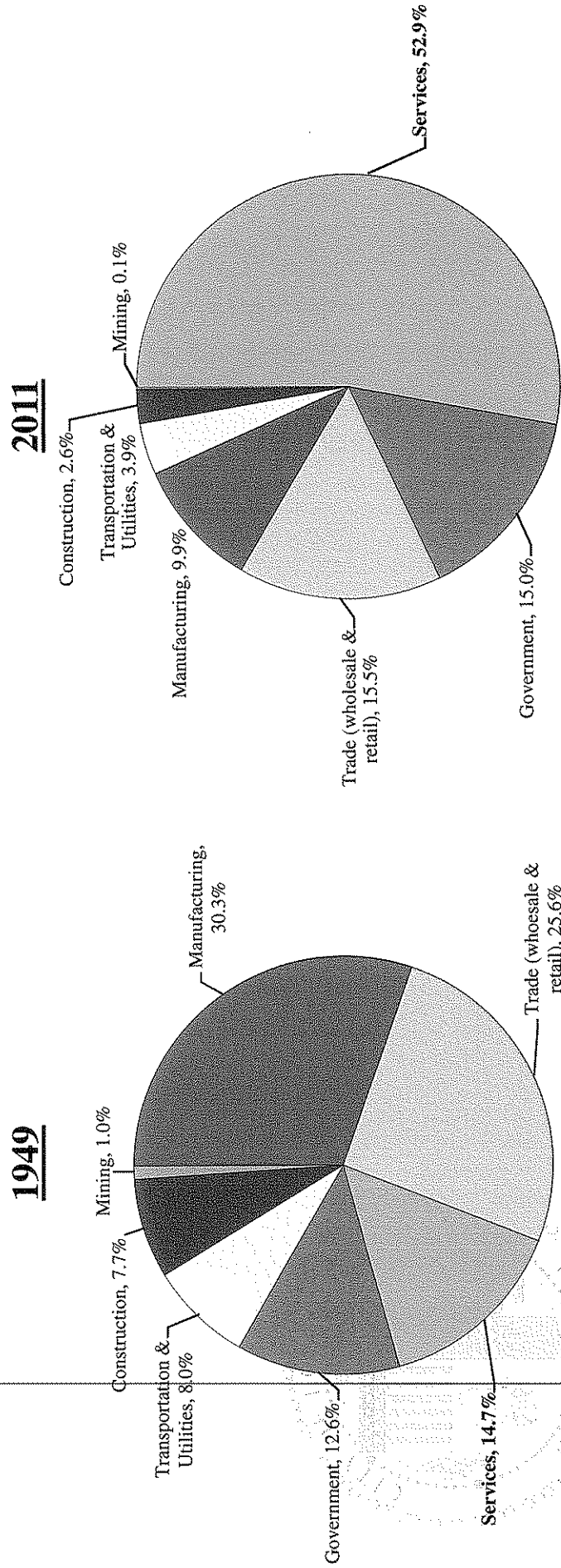
—“Professions & Occupations” Catch-All

City	Gross Receipts		Employee Tax Per 100 Employees
	Rate		
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

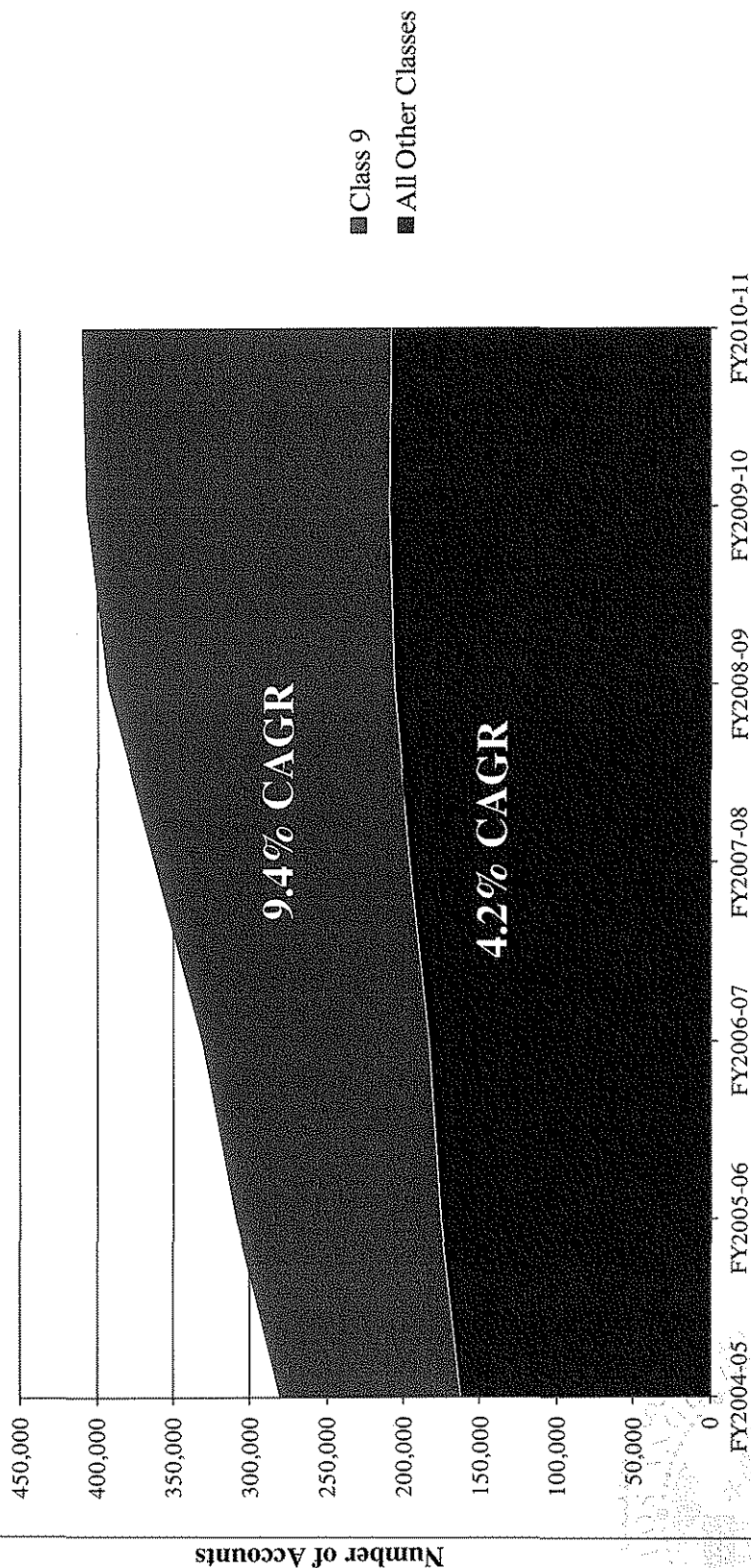
Penal Aspect of “Professions & Occupations” Catch-All Out of Touch with Current Economic Reality

- 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

Source: City of Chicago Department of Finance, Office of Tax Services, Business Tax Department, Business Taxpayer Data, 2004-2011

Growth in Number of Accounts by Class



CAGR - Compound Annual Growth Rate

• 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...

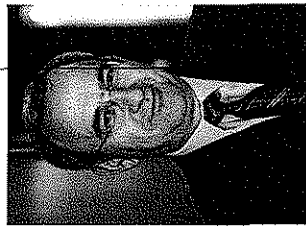
Lowering Business Tax Rate *Will* Increase Economic Activity, Increasing Other Revenue Streams

- 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

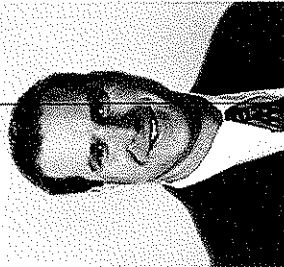
- Business Tax Advisory Committee (“BTAC”) formed in January 2010 at Behest of Mayor & City Council
- 8 Current Appointees to Committee
 - Michael Banner (Parks)
 - Kathy Faulk (Hahn/Buscaino)
 - Saúl Gomez (Villaraigosa)
 - Lloyd Greif (Garcetti)
 - Mel Kohn (Alarcon)
 - Craig Morris (Garcetti)
 - Melissa 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



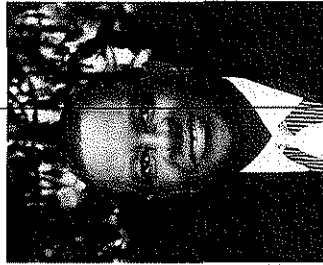
Chairman — Lloyd Greif
President & CEO, Greif & Co.

- Successful investment banking career spanning three decades
- Founded Los Angeles based middle-market investment bank Greif & Co. in 1992
- Prior - Vice Chairman of Suito & 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



Vice-Chair — Craig Morris
Partner, KPMG LLP

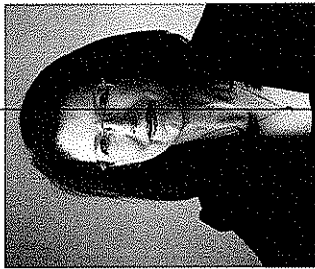
- State and Local Tax Partner with 27 years experience in KPMG LLC's Los Angeles office where he leads *Pacific Southwest Income and Franchise* tax practice
- Prior - lead tax partner for many of KPMG's audit and tax clients
- Co-authored *Practical Guide To California Taxes: The Impact Of Economic Crisis* — 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.

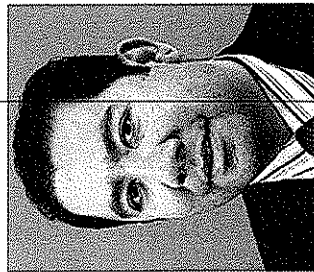
- President and CEO of Los Angeles LDC, Inc., a U.S. Department of Treasury certified Community Development Financial Institution
- Responsible for infusing \$250 million of capital into low income and distressed communities while stimulating new business and employment opportunities
- Prior – Vice President 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



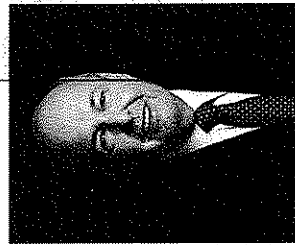
Kathy Faulk
General Manager, *Omni Hotel*

- 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

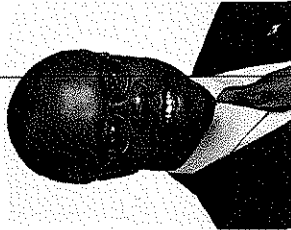
- Past Managing Partner of *Kirsch, Kohn & Bridge LLP*, *Certified Public Accountants*
- Member of the *American Institute of Certified Public Accountants* and *California Society of Certified Public Accountants (CalCPA)*
- Past Member of the Board of Directors of the Los Angeles Chapter of *CalCPA*
- 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



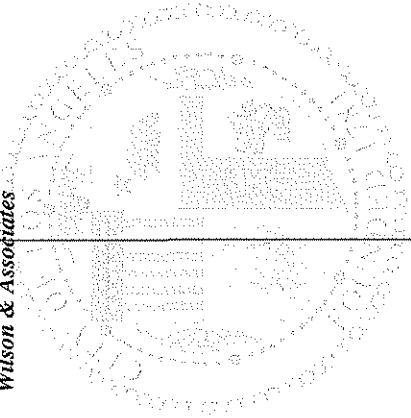
Melissa Patack
VP, State Government Affairs
Motion Picture Association of
America, Inc.

- 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*



Mel Wilson
Alterra Real Estate Mel
Wilson & Associates

- 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)



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.)

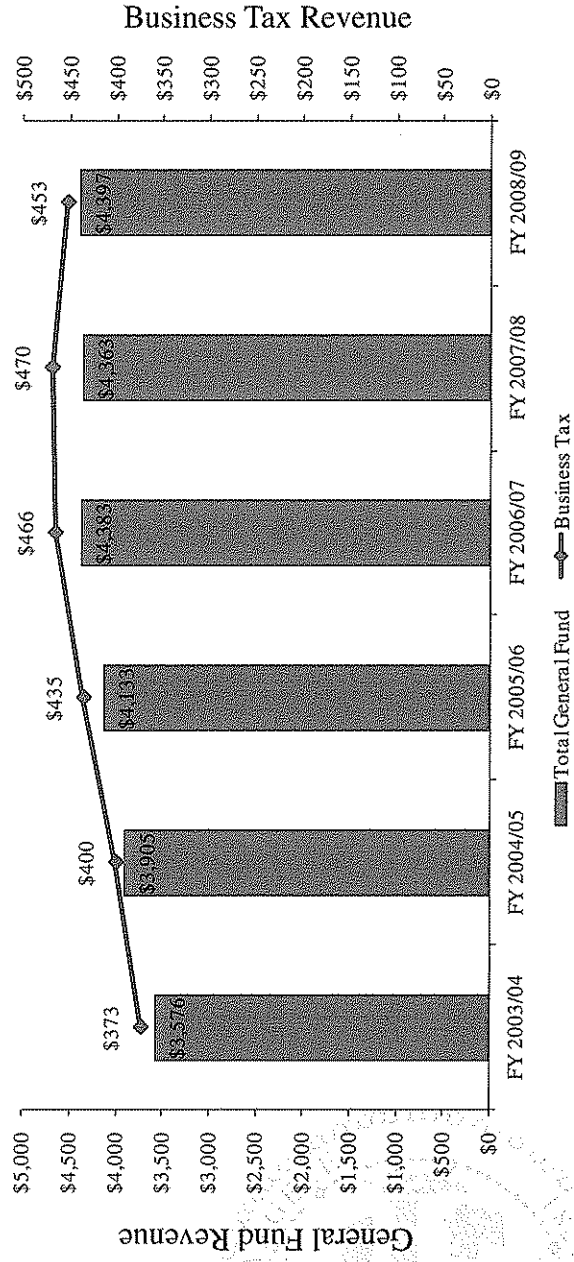
- LA's Onerously High Gross Receipts Tax is Not Just Unfriendly to Business— It's Unfriendly to *Workers*, the *City* and the *Quality of Life* for All Residents
- Businesses Are the Creators of Private Sector Jobs, Which Induce & Indirectly Create More Jobs
- Together, These Direct, Indirect & Induced 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

(\$ in millions)



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.)

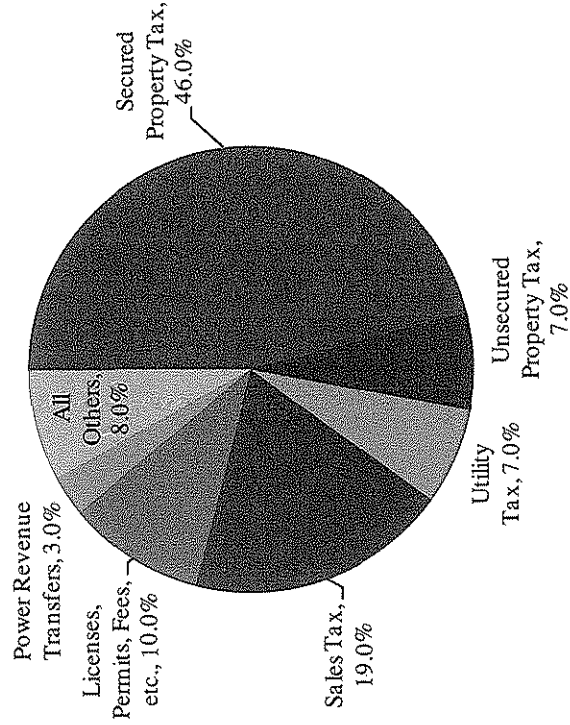
- Bartik also observed that “...Tax Effects on Business Location Decisions are Generally Much Larger for Intrametropolitan Business Location Decisions than for Intermetropolitan or Interstate Business Location Decisions. We Would Expect this Pattern Because a Potential Business Site is Likely to Have 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

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

- Based on Extensive Economic Analysis, Research & Empirical Data, USC Professor Swenson Concluded that Elimination of Gross Receipts Tax Would Incentivize More Businesses to Come to, Expand in & Remain in LA
- Resultant Heightened Economic Activity Anticipated to Drive Strong Employment Growth of Approximately **119,000 New Jobs**
- Loss of Business Tax Revenue Estimated to be More Than Made Up for by Gains in Such Other Indirect Revenues from Increased Economic Activity and

Employment as:

- Property Taxes
- Sales Taxes
- Utility Taxes
- Permits, Licenses & Fees
- Power Revenue Transfers



Source: Report to the City of Los Angeles on Potential Revisions to the Business Tax, Charles Swenson, August 2011 and Addendum dated November 2011

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

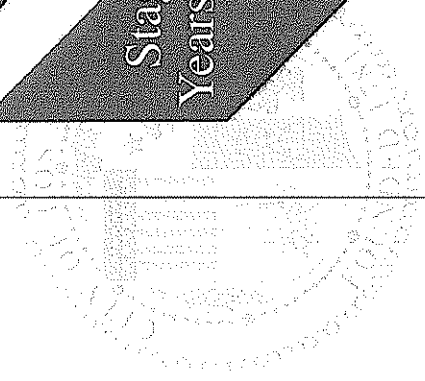
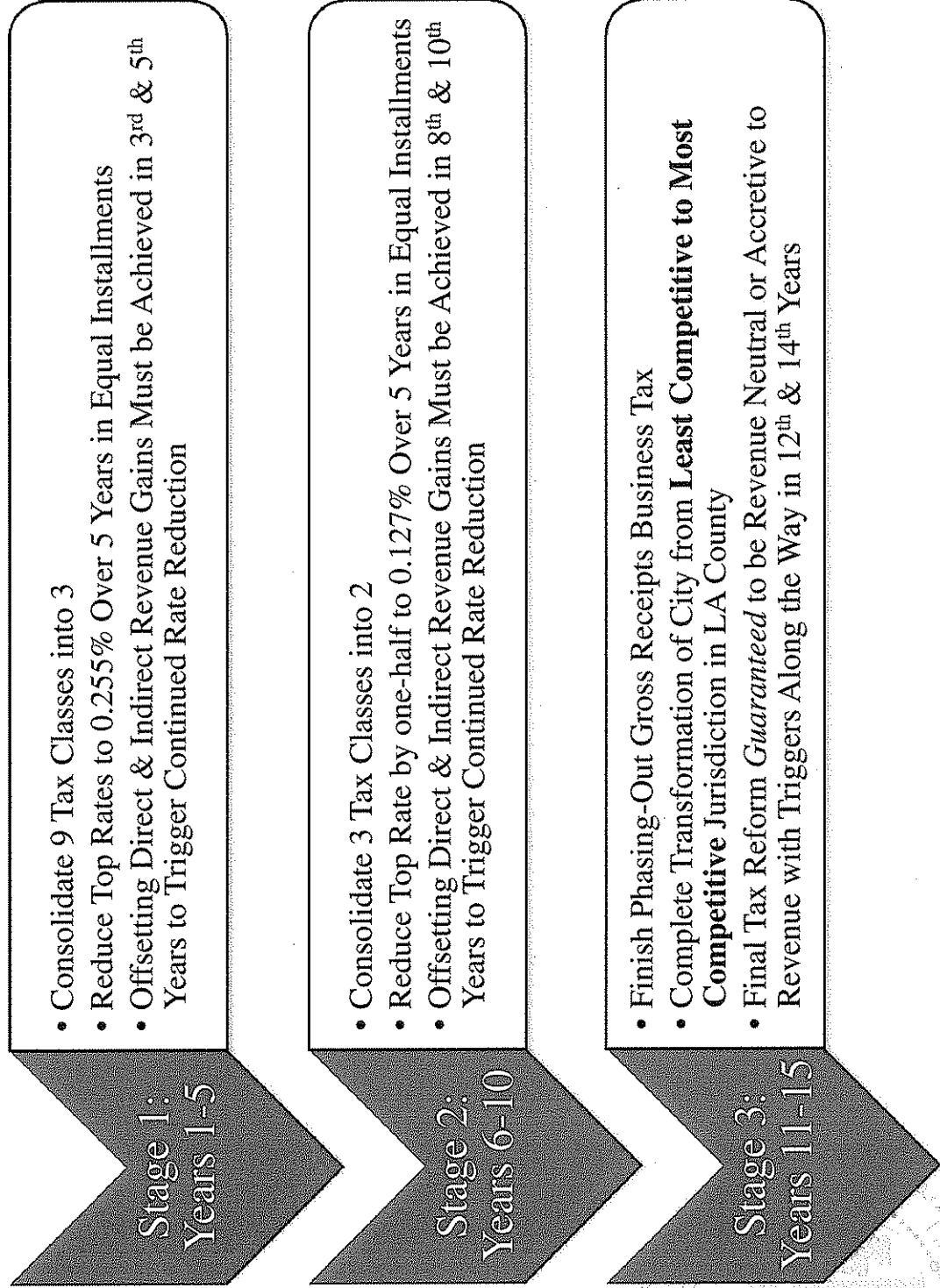
- **The Milken Institute**, a Leading Global, Independent Economic Think Tank, Applied Nonpartisan, Data-driven Approach in May 2012 to Critically Examine Dual Economic Analyses Performed by USC’s Dr. Swenson and Blue Sky, Stressing that Examining Means to Improve Business and Employment Climate of City of Los Angeles “is Essential Not Only for the Continued Economic Health of the City Itself, but Also for the Surrounding Region”
- While Critiquing “Considerable Lack of Transparency” in Work Performed by Blue Sky, Milken Rated Dr. Swenson’s Work “Solid and Effective in its Intended Goals and Results.” The Institute Went on to State “Professor Swenson Employed Proper Methodologies in Engaging the Los Angeles City Business Tax Study. His Application of Regional Economic Modeling, Background Research and Academic Reference on Effects of Changing Tax Codes on Los Angeles is Appropriate.” Milken Further Found Dr. Swenson’s Statistical Approach and Methodology “Conventional” and “Sound”, Deeming his Background Research “Suitable and the Various Benchmarking Used with Regards to Tax Code Change Stimulus on ‘a Typical Regional Economic System’ Appropriate”
- *Milken Concluded 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...the Overall Information Provided by Dr. Swenson Gives a Largely Accurate Portrayal of the Economic Impacts of the Elimination of the City of Los Angeles’ Gross Receipts Business Tax”*

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	Class	Rate	Taxes Paid	Class	Rate	Taxes Paid
\$5,040,721,782	Child/Multimedia/Phone/Tugboat	1	0.101%	\$5,091,129	1	0.101%	\$5,091,129
30,921,035,644	Wholesale Sales	2	0.101%	31,230,246	1	0.101%	31,230,246
18,521,246,457	Rental/Swap/Hotel/Antique	3	0.127%	23,521,983	2	0.127%	23,521,983
47,294,653,543	Retail Sales	4	0.127%	60,064,210	2	0.127%	60,064,210
3,353,225,984	Radio/TV/Theater	5	0.127%	4,258,597	2	0.127%	4,258,597
4,937,632,549	Prop/Coll/Sport/Vend/Freight	6	0.255%	12,590,963	3	0.255%	12,590,963
522,307,619	Broker/Telemarketing	7	0.315%	1,645,269	3	0.255%	1,331,884
3,877,183,427	Miscellaneous Services	8	0.356%	13,802,773	3	0.255%	9,886,818
48,684,338,462	Professions/Occupations/HMO	9	0.507%	246,829,596	3	0.255%	124,145,063
15,321,269,307	Contractor	Other	0.101%	15,474,482	1	0.101%	15,474,482
395,021,961	Contractor- "B" Gross	Other	0.255%	1,007,306	3	0.255%	1,007,306
512,752,941	Sale- Real Property	Other	0.255%	1,307,520	3	0.255%	1,307,520
	Motion Picture Prod	Other		2,187,943	Other		2,187,943
	Transporting Persons for Hire	Other		963,451	Other		963,451
	Trucking/Hauling	Other		108,117	Other		108,117
	Other	Other		1,044,013	Other		1,044,013
				\$421,127,598			\$294,213,725
							\$126,913,873

Total Reduction in Taxes

FY 10-11		Consolidated	
Gross Receipts	Description	Class	Taxes Paid
\$51,283,026,733	Wholesale	1	\$51,795,857
69,169,125,984	Retail & Media	2	87,844,790
58,929,236,959	Services & Professions	3	150,269,554
	Other		4,303,524
			\$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

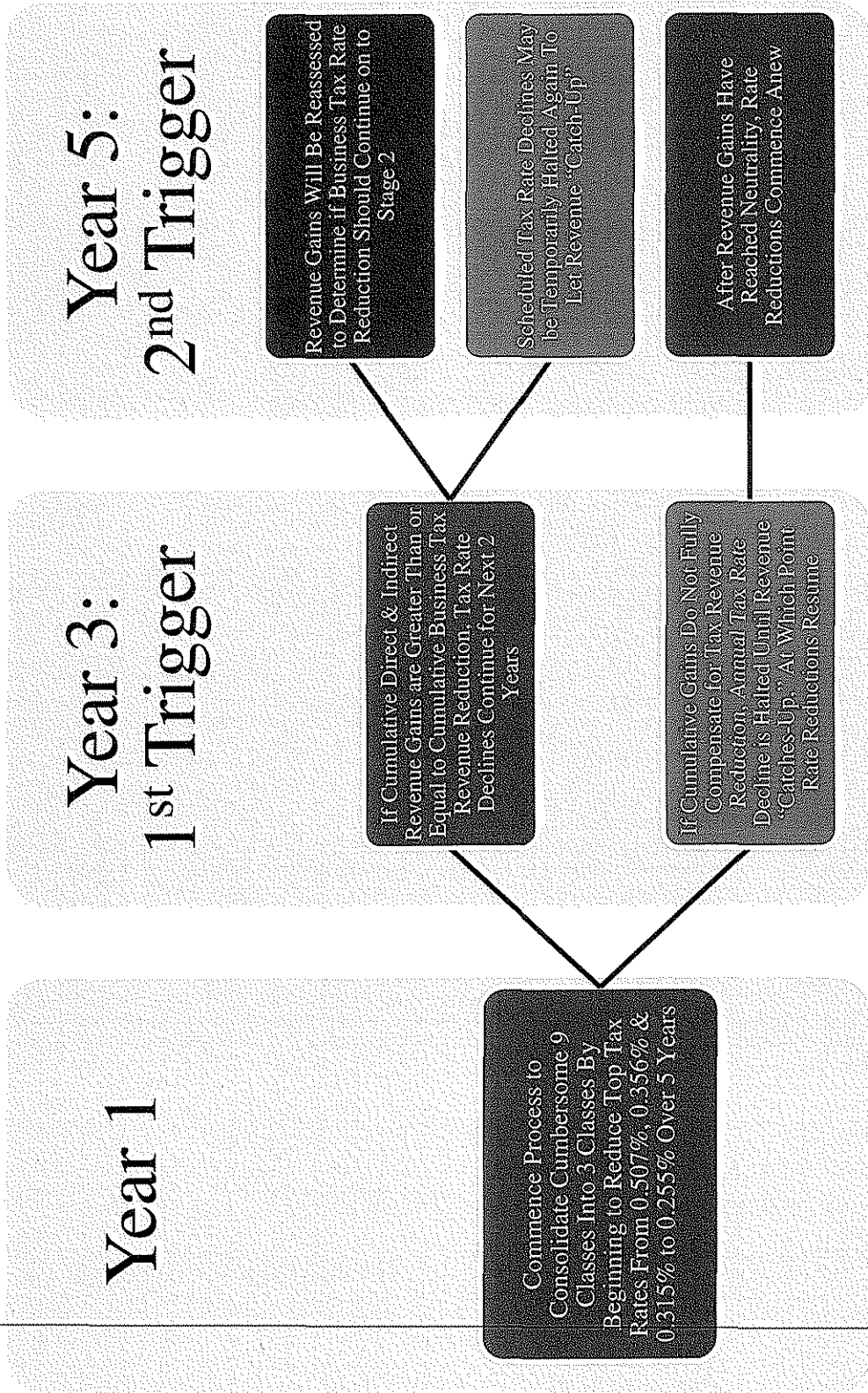
- 15-Year Plan to Simplify, Reform and Ultimately Phase-Out Gross Receipts Tax has Built-In “Safety Belt” to Protect City Budget Designed to Ensure Revenue Neutrality from the Tax Reform
- Prior to Implementation of 1st Year of Rate Reductions, Base Year will be Set at Current Amount of City Receipts of both Direct & Indirect Revenues Tied to Level of Economic Activity
 - Business Taxes — Documentary Transfer Taxes
 - Sales Taxes — Parking Users’ Taxes
 - Property Taxes (Real & Personal) — Power Revenue Transfers
 - Utility Taxes — Parking Fines
 - Licenses, Permits & Fees — Residential Development Taxes
 - Transient Occupancy 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	Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid	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
							\$25,382,775		\$25,382,775		\$25,382,775

Annual Reduction in Business Tax

Class	FY 10-11 Gross Receipts	Year 3		Year 4		Year 5	
		Rate	Taxes Paid	Rate	Taxes Paid	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
							\$25,382,775

Annual 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

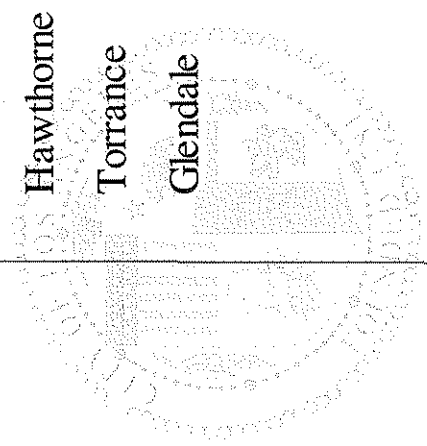
	<u>Current</u>	<u>Proposed after Stage 1</u>
Los Angeles	0.507%	0.503%
Santa Monica ⁽¹⁾	0.503%	0.301%
Culver City	0.301%	0.255%
Inglewood	0.165%	0.165%
El Monte	0.147%	0.147%
San Fernando	0.132%	0.132%
El Segundo	0.130%	0.130%
Claremont	0.111%	0.111%
Compton	0.107%	0.107%
Gardena	0.101%	0.101%
Hawthorne	0.100%	0.100%
Lomita	0.073%	0.073%
Palmdale	0.056%	0.056%
Bell	0.044%	0.044%
Huntington Park	0.040%	0.040%

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

⁽¹⁾ Unlike Los Angeles' highest "catch-all" tax rate, Santa Monica's top bracket only applies to accountants, attorneys and doctors ; Santa Monica's comparable "catch-all" business tax rate is 0.125%

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%
Irwindale	0.033%	-0.474%	0.033%	-0.222%
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		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	0.101%	\$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

\$15,085,885

Class	FY 10-11 Gross Receipts	Year 8		Year 9		Year 10	
		Assuming 60% Reduction		Assuming 80% Reduction		Assuming Full Reduction	
		Rate	Taxes Paid	Rate	Taxes Paid	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

\$15,085,885

- 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

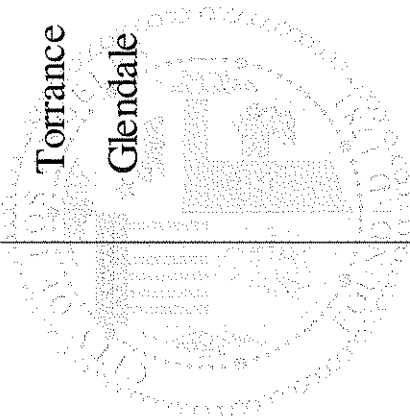
	<u>Current</u>		<u>Proposed after Stage 2</u>
Los Angeles	0.507%	Santa Monica ⁽¹⁾	0.503%
Santa Monica ⁽¹⁾	0.503%	Culver City	0.301%
Culver City	0.301%	Inglewood	0.165%
Inglewood	0.165%	El Monte	0.147%
El Monte	0.147%	San Fernando	0.132%
San Fernando	0.132%	El Segundo	0.130%
El Segundo	0.130%	Los Angeles	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%

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

⁽¹⁾ Unlike Los Angeles' highest "catch-all" tax rate, Santa Monica's top bracket only applies to accountants, attorneys and doctors; Santa Monica's comparable "catch-all" business tax rate is 0.125%

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%
Irwindale	0.033%	-0.474%	0.033%	-0.094%
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	FY 10-11 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

\$43,756,860

Class	FY 10-11 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

\$43,756,860

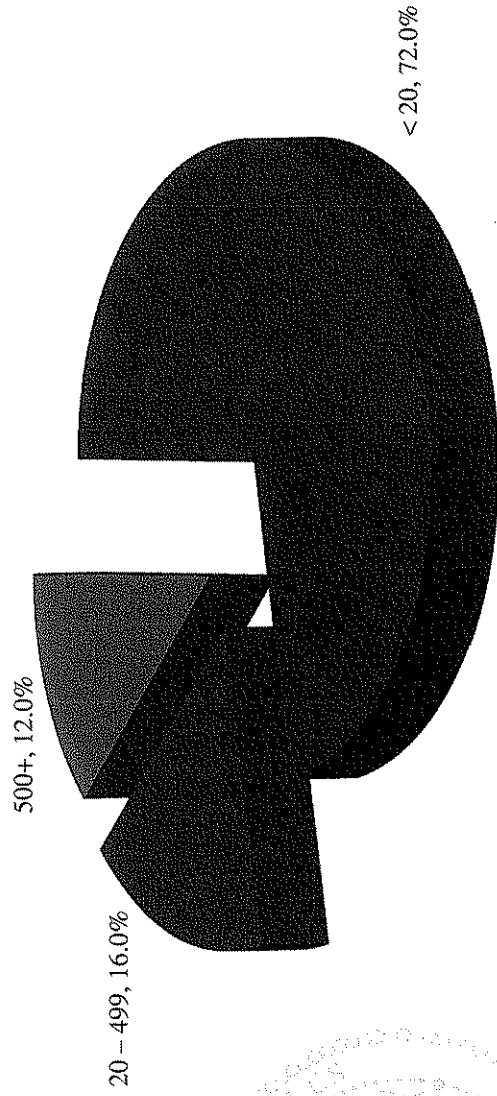
\$43,756,860

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