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ANTONIO R. VILLARAIGOSA
MAYOR

February 29 , 2012

The Honorable Jobs and Business
Development Committee of the
City of Los Angeles
Room 395, City Hall
Los Angeles, California 90012

Attention: Eric Villanueva, Legislative Assistant

The enclosed updated report from the Business Tax Advisory Committee (BTAC) dated February 15, 2012, "Updated Report of Business Tax Advisory Committee Recommending How to Eliminate Gross Receipts Business Tax" in the City of Los Angeles is being formally transmitted to be attached to Council File 09-1914-S8.

Should you have any questions, please contact Lloyd Greif, BTAC Chair, at (213) 346-9255.

Thank you for your consideration to this matter.

Sincerely,

Antoinette Cristovale, CPA
General Manager

Enclosure

cc: Lloyd Greif, Chair, Business Tax Advisory Committee (BTAC)
Gaye Williams, Mayor's Chief of Staff
Gerry Miller, Chief Legislative Analyst
Miguel Santana, City Administrative Officer
Neil Guglielmo, Deputy Mayor, Mayor's Office of Budget and Financial Policy
Chris Pearson, Policy Director, Mayor's Office of Economic and Business Policy
Matthew Rudnick, Associate Director, Mayor's Office of Budget and Financial Policy

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

February 15, 2012



Executive Summary

- LA's Gross Receipts Business Tax, with Rates Ranging Up to 0.507%, is Unconscionably High—**9.5 Times Higher** Than Average for Rest of LA County
- LA's Jobs Have *Contracted* While Population Has *Expanded* Over Past 3 Decades
- City's Untenably High Unemployment Rate of 14.6% is *60% Higher* Than Nation's Already Lofty 9.1% Level
- City of LA—with All of Its Structural Advantages—Should be *Leading* LA County in Economic Activity, Not *Trailing* It
- LA's Reputation for Being Business Unfriendly—and Thus Worker & Quality of Life Unfriendly—Emanates from Most Visible Embodiment: Onerous & Widely Criticized Gross Receipts Tax
- Business Tax Advisory Committee, Task Force Appointed by Mayor & City Council, Has Studied Problem & Recommends Phasing Out Antiquated Gross Receipts Tax Over Next 5 Years

Executive Summary (Cont.)

- Econometric Analysis Commissioned by City Indicates Impact from Elimination of Business Tax Could Range from a Revenue Decrease of \$25 million (Worst Case) to **\$263-Million Revenue *Windfall*** (Best Case) for LA
- Although Business Tax Revenue of \$425 Million Would Go to Zero, Indirect Revenues Stemming from Increased Economic Activity Would Offset Impact as Businesses Coming to, Expanding Within or Staying in LA Drive Strong Growth in Employment
 - Analysis Estimates **119,000 New Jobs** Would be Created, Returning LA Residents to Near Full Employment
- Worst Case Analysis Estimates \$385 Million of Indirect Revenue Gains, Effectively a Small Decrease of \$25 million with Loss of Gross Receipts Tax, But LA Would be Better Positioned for Economic & Employment Growth in Future Thanks to Newly Acquired Reputation for Being Business Friendly
 - Average Case Shows \$549 Million in Incremental Indirect Revenues, a Net Positive Contribution to City's Coiffers of \$125 Million
 - Best Case Indicates \$714 Million, a Net Gain of \$289 Million for LA

Executive Summary (Cont.)

- Indirect Revenue Gains Consist of
 - Increased Sales from New Employer & Employee Purchasing Power
 - Property Tax Gains from Heightened Demand for Commercial & Residential Real Estate
 - Unsecured Property Tax Increases
 - More Employers & Employees Driving Greater Utility Tax Streams
 - Increased Economic Activity Driving Higher Permits, Licenses & Fees Volume
- 5-year Phase Out Would be Designed to Prevent City from Being in a Deficit Position as Direct Result of Reduction & Elimination of Business Tax
 - Indirect Revenues Build as Business Taxes Decline
- “No Strings Attached” Elimination of Gross Receipts Tax Necessary
 - Businesses Abhor Uncertainty and Won’t Commit Money to Investing in LA Operations if There’s Even a *Possibility* Business Tax Phase-Out Can be Interrupted or Reversed
- New Business Tax Exemption Implemented in 2010 Should be Extended Until Gross Receipts Tax Has Been Completely Phased Out
 - Removes Any Barriers to Immediate & Unfettered Business Attraction and Job Growth While Business Tax Phase-Out is in Process

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
 - **14.6%**, An Alarming 25% Higher Than the State & 60% Higher Than the Nation

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 Business & Jobs *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*)

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

Key Findings From 2007 *Tax Foundation* Study on Gross Receipts Tax Structure

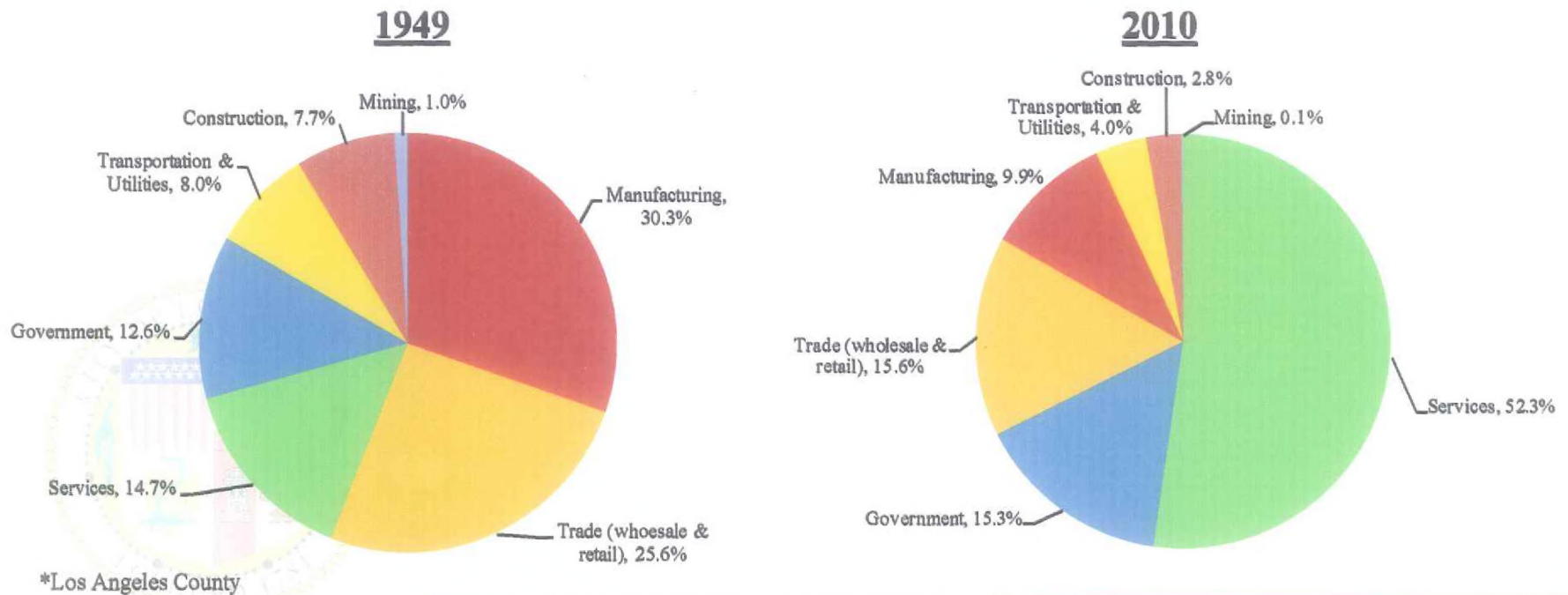
- **Economic Neutrality:** Gross Receipts Tax Interferes with Private Market Decisions
- **Competitiveness:** Gross Receipts Tax Interferes with Capacity of Businesses to Compete with Companies in Other Jurisdictions
- **Fairness:** Gross Receipts Tax does not Treat Equally Situated Businesses the Same. Businesses with Similar Net Incomes Could Have Radically Different Tax Rates when Based on Revenues
- **Transparency:** Gross Receipts Tax is a Stealth Tax with its True Burden Hidden from Taxpayers
- **Rate:** Unlike most Taxes, the Effective Rate of a Gross Receipts Tax is Higher than Statutory (or Advertised) Rate

Source: *Gross Receipts Taxes in State Government Finances: A Review of Their History and Performance*. Publication of Tax Foundation, John L. Mikesell, Jan. 2007. Web. 11 Mar. 2010. <<http://www.taxfoundation.org/research/show/2180.html>>.

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*



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 **52.3%** 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, 42% of Taxpayers Lumped Into Highest “Catch-All” Category & Pay 58% of Taxes
- City Tax Should *at Worst* be Neutral and *at Best* be Source of Encouragement for Business Location & Job Creation—L.A.’s Onerous Gross Receipts Business Tax is an Obstacle, a Deterrent & an *Anachronism*

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

<u>City</u>	<u>Gross Receipts Rate</u>	<u>Employee Tax Per 100 Employees</u>
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	

Gross Receipts Tax A Highly Visible *Lightning Rod*

- Gross Receipts Tax is a *Millstone* Around Neck of Los Angeles
- Of 87 Competing Jurisdictions in L.A. County, Only 28 Employ a Gross Receipts Tax & *None* as High as City of L.A.
- Alternative, Fairer Methods of Imposing Business Tax
 - No Tax
 - Flat Tax
 - Fixed Amount per Employee
 - Fixed Amount per Square Foot Owned / Leased
- Because of *Proposition 218*, No “Quick Fix” for Gross Receipts Tax
 - Prop. 218 Requires Voter Approval to Increase Any Part of City’s Business Tax
 - Eliminating Gross Receipts Tax & Replacing with per Employee or per Square Foot Tax Could Reduce Business Taxes for 99% of Companies, but 1% Could Stop Repeal in its Tracks Thanks to Prop. 218

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)
 - 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 *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*



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)



Saúl 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 Berkley* (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
Altera 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 Years, BTAC Has Held 32 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

BTAC's Proposals with Economic Impacts

- BTAC Also Developed 8 Specific Recommendations Anticipated to Have Economic Impacts on the City with Objective of Revenue *Neutrality*
 - Reduce or Eliminate the Gross Receipts Tax
 - Cap the Gross Receipts Tax for Payers
 - Implement a Lower Corporate Headquarters Tax
 - Incentivize Companies to Locate Near Public Transportation Centers by Imposing Lower Tax Rates
 - Incentivize Companies to Remain in LA
 - Temporarily Exempt New Businesses from Taxation
 - Provide Tax Credits to Businesses That Create New Jobs

Economist Retained to Analyze BTAC's Proposals

- At BTAC's Request, City of Los Angeles—Through Office of Finance ("Finance")—Issued an RFP to Retain Outside Expert to Conduct Economic Analysis of BTAC's 8 Proposals
 - Professor Charles Swenson of University of Southern California's Marshall School of Business Selected by City to Perform Econometric Analysis for BTAC



Charles Swenson, PhD
Professor of Accounting
University of Southern California
Marshall School of Business

- Professor and Leventhal Research Fellow at *USC's Marshall School of Business* since 1987
 - Prior – Visiting Professor at *UCLA* and *Caltech*
- Conducts economics-based research on state and local taxation, location-based credits and incentives, and enterprise zones
 - Published over 50 academic research and professional articles in the *Journal of Law and Economics*, *Journal of Public Economics*, *National Tax Journal* and *The Accounting Review*
 - Serves on the editorial board of the *Journal of Accounting and Public Policy* and the *Asia Pacific Journal of Taxation*, and previously served on the editorial board of *The Accounting Review*
 - Author of two tax texts and is the General Editor of the treatise *Bender's State Taxation: Principles and Practice*
 - Has presented economics-based tax research before the *California Senate Revenue and Taxation Committee* and the *California Assembly Committee on Jobs*
- PhD, *University of Southern California*; MS, *Arizona State University*; BS, *University of Arizona*
- Three-time recipient of the *Tax Manuscript Award* from the *American Taxation Association*

Economic Analysis Supports Gross Receipts Tax Repeal

- Expert Hired by City Delivered Final Report to Finance and BTAC on August 3, 2011 with an Addendum dated November 28, 2011
 - Of BTAC's 8 Recommendations, Dr. Swenson Determined Proposal to Eliminate Business Tax *In Its Entirety* Would Have Greatest Impact on Boosting Economic Activity & Creating New Jobs
- Professor's Extensive Economic Research, Analyzing Past Business Tax Breaks, Concluded That, at Worst, Elimination of Business Tax Would Result in a Slight Revenue Decrease for LA &, at Best, Would Generate Approximately **\$289 Million** of Additional Revenues
 - Lost Income from Business Tax Would be More Than Made Up for by Indirect Revenues Generated from Increased Economic Activity and Job Creation
 - New, Retained and Expanding Businesses Would Beget Greater Employment, Driving Cash Flow Gains to the City from
 - Sales Taxes from Employer & Employee Purchases
 - Unsecured Property Tax Gains
 - Property Tax Gains from Increased Demand for Commercial & Residential Real Estate
 - More Employers & Employees Fueling Utility Tax Gains
 - Increased Economic Activity Driving Greater Income from Permits, Licenses & Fees, as Well as Power Revenue Transfers

Benefits of Gross Receipts Tax Elimination

- Business Tax Removed 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 Service-Based Economy vs. Manufacturing-Based when 1st Conceived 75 Years Ago

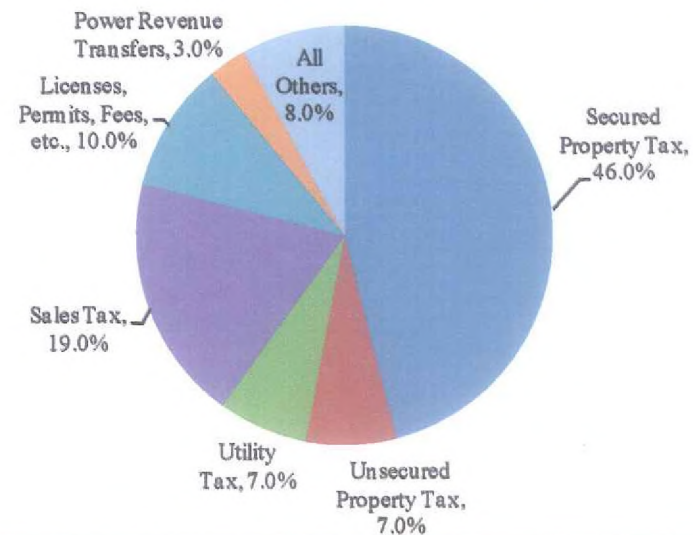
Benefits of Gross Receipts Tax Elimination (Cont.)

- LA's Onerous 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

Greater Economic Activity = Greater & More Diverse City Revenue

- 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

City Income from Increased Economic Activity

Business Tax Revenue vs. Indirect Revenues From Increased Economic Activity & Employment
(\$ Millions)

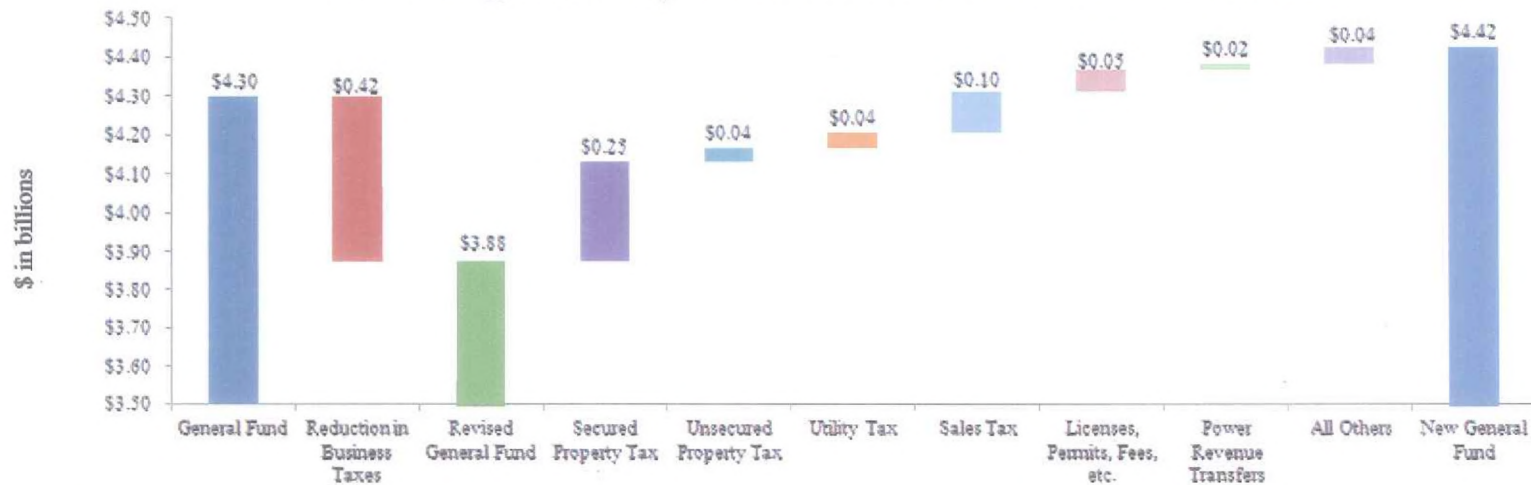


- By Eliminating Gross Receipts Tax of \$425 Million, City is Expected to Receive General Fund Revenue of Approximately \$385 Million in Worst Case and \$714 Million in Best Case Driven by Resultant Increased Economic Activity & Employment

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

Impact on General Fund

Los Angeles City Current & Pro Forma Revenue



- Business Taxes Make Up \$425 Million of the City's \$4.3-Billion General Fund
 - Elimination of Business Tax Revenue is Ultimately Expected to Result in Additional Revenue of Approximately \$549 Million ("Average Case") Including Incremental Property, Sales & Utility Taxes for a Net Gain to LA of \$125 Million
- Expected to Result in Strengthened General Fund of Approximately **\$4.4 Billion** Once Indirect Revenue Gains Take Effect

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

Proposal: 5-Year Phase Out of Gross Receipts Tax

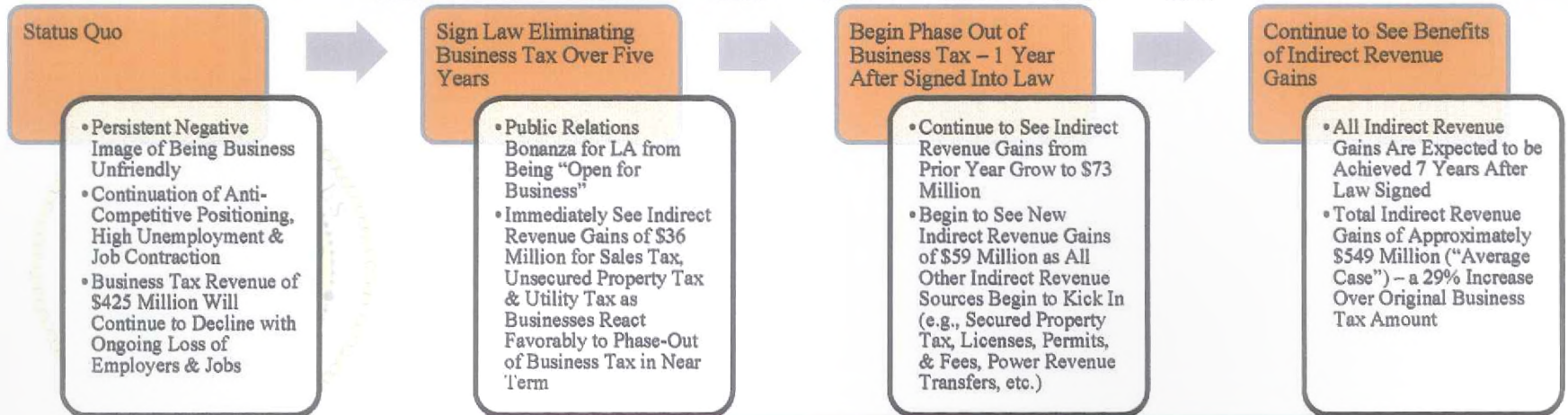
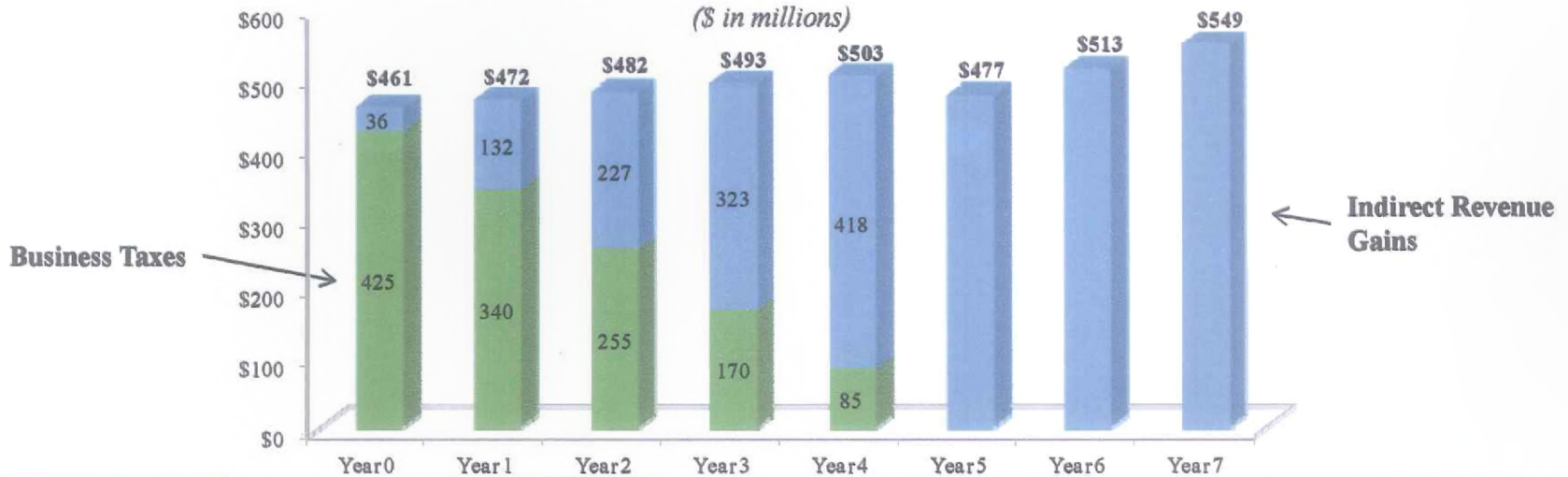
Provide Pro Rata Relief to Taxpayers Based on Amount of Taxes Paid

Class	FY 09-10 Gross Receipts	Status Quo		Year 1 1/5 Reduction		Year 2 2/5 Reduction		Year 3 3/5 Reduction		Year 4 4/5 Reduction		Year 5 Full Reduction	
		Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid	Rate	Taxes Paid
1	\$8,899,706,484	0.101%	\$8,988,704	0.081%	\$7,190,963	0.061%	\$5,393,222	0.040%	\$3,595,481	0.020%	\$1,797,741	0.000%	\$0
2	30,049,286,477	0.101%	30,349,779	0.081%	24,279,823	0.061%	18,209,868	0.040%	12,139,912	0.020%	6,069,956	0.000%	0
3	18,397,048,279	0.127%	23,364,251	0.102%	18,691,401	0.076%	14,018,551	0.051%	9,345,701	0.025%	4,672,850	0.000%	0
4	45,167,372,001	0.127%	57,362,562	0.102%	45,890,050	0.076%	34,417,537	0.051%	22,945,025	0.025%	11,472,512	0.000%	0
5	3,139,538,412	0.127%	3,987,214	0.102%	3,189,771	0.076%	2,392,328	0.051%	1,594,886	0.025%	797,443	0.000%	0
6	4,337,977,300	0.255%	11,061,842	0.204%	8,849,474	0.153%	6,637,105	0.102%	4,424,737	0.051%	2,212,368	0.000%	0
7	651,956,846	0.315%	2,053,664	0.252%	1,642,931	0.189%	1,232,198	0.126%	821,466	0.063%	410,733	0.000%	0
8	4,069,850,285	0.356%	14,488,667	0.285%	11,590,934	0.214%	8,693,200	0.142%	5,795,467	0.071%	2,897,733	0.000%	0
9	48,634,380,065	0.507%	246,576,307	0.406%	197,261,046	0.304%	147,945,784	0.203%	98,630,523	0.101%	49,315,261	0.000%	0
Other			26,596,953		21,277,563		15,958,172		10,638,781		5,319,391		0
			\$424,829,944		\$339,863,955		\$254,897,966		\$169,931,978		\$84,965,989		\$0

- All Classes (1-9) & “Other” Taxpayers Receive Immediate Relief in Direct Proportion to Amount of Taxes Paid in Fiscal Year 2009/2010
- Provides Greatest Relief to Taxpayers Paying the Most Taxes—City’s Exorbitant 0.507% “Occupations & Professions” Catch-All Category
 - Service Businesses that are Highly Mobile Need to be Secured First
- Dollar Amount of Tax Burden Declines by 20% Each Year

Revenue Impact of Phased Elimination of Business Tax

Business Tax Revenue & Indirect Revenue Gains – Five-Year Phase Out



Indirect Revenue Phase-In Assumptions

Estimated Time Table for Indirect Revenue Impacts		
Category	Phase-In Assumption	% of Total
Business Taxes	Assume ordinance is signed Day 1, Year 0 and takes effect Day 1, Year 1	
Secured Property Tax	Starting one year after law is signed and fully complete in five to seven years (7 years assumed)	46.0%
Unsecured Property Tax	Starting immediately after law is signed, and fully complete in five years	7.0%
Utility Tax	Starting immediately after law is signed, and fully complete in five years	7.0%
Sales Tax	Starting immediately after law is signed, and fully complete in five years	19.0%
Licenses, Permits, Fees, etc.	Starting first year of tax change and fully complete in five years	10.0%
Power Revenue Transfers	Starting one year after law is signed and fully complete in five years	3.0%
All Others	Starting first year of tax change and fully complete in five years	8.0%

\$ in millions

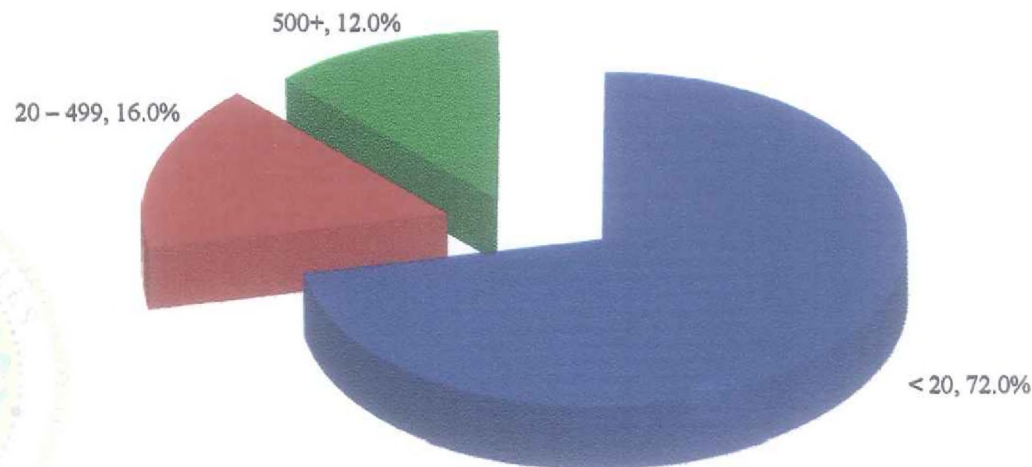
	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Secured Property Tax	\$0.0	\$36.1	\$72.2	\$108.3	\$144.4	\$180.5	\$216.6	\$252.7
Unsecured Property Tax	7.7	15.4	23.1	30.8	38.5	38.5	38.5	38.5
Utility Tax	7.7	15.4	23.1	30.8	38.5	38.5	38.5	38.5
Sales Tax	20.9	41.8	62.6	83.5	104.4	104.4	104.4	104.4
Licenses, Permits, Fees, etc.	0.0	11.0	22.0	33.0	44.0	54.9	54.9	54.9
Power Revenue Transfers	0.0	3.3	6.6	9.9	13.2	16.5	16.5	16.5
All Others	0.0	8.8	17.6	26.4	35.2	44.0	44.0	44.0
Indirect Revenue Gains	\$36.3	\$131.7	\$227.2	\$322.6	\$418.1	\$477.2	\$513.3	\$549.5

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

Business Tax Elimination Phase-In “Do’s & Don’ts”

- 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

Business Tax Elimination

Phase-In “Do’s & Don’ts” (Cont.)

- Businesses Require Certainty & Predictability and Will *Not* Make Investments to Expand or Relocate if Elimination of Business Tax Has “Strings Attached”
 - Time Table for Elimination Needs to be Fixed & Invariable
 - Tying Pace or Amount of Phase-Out to Indirect Revenue “Triggers” or “Milestones” Will Doom Initiative to Failure
 - Businesses Will Not Make Decision & Financial Commitment to Come to or Grow in LA if There Is *Any* Potential for Phase-Out Not to Occur
 - “Trust Us” Doesn’t Work in Good Economic Times, Let Alone Bad
- To Accelerate Attraction of New Businesses to City, New Business Tax Exemption Currently in Place Should be Extended Until Business Tax Phase-Out is Completed
 - *Ordinance No. 181271* Set to Expire December 31, 2012—City Council has Requested City Attorney to Draft an Ordinance Extending it for Three Years
 - Should be Extended Until Business Tax Has Been Completely Phased Out
 - Step Designed to Move the Needle *Immediately* Since Bridges Over Phase-In Period to Spur Critically Needed Job Growth
 - “Found Money” for City Because Impacted Companies Would Otherwise Not Start in or Relocate to LA

